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

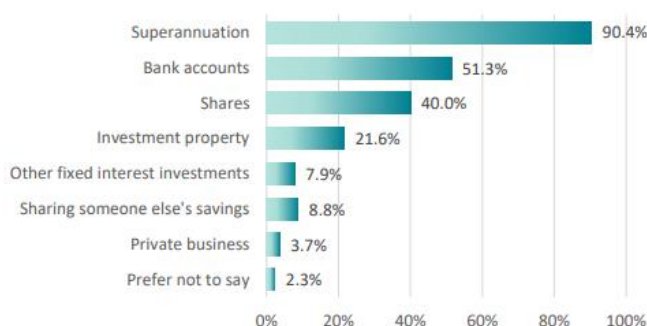
Dear Director

National Seniors Australia welcomes the opportunity to make submission to the consultation aimed at legislating an objective of superannuation.

As the peak body representing older people in Australia, National Seniors Australia understands the importance older people view superannuation.

Superannuation is a primary means of supporting consumption to provide an adequate standard of living in later life.

National Seniors Australia research shows superannuation is by far the most common method used to accumulate capital in retirement. Our survey of people aged 50+ showed 90% of respondents held savings in superannuation, with the next closest savings type held being bank accounts at 51.3%.



**Figure 1: Types of retirement capital held by older people.<sup>1</sup>**

<sup>1</sup> Hosking, D., Minney, A. and McCallum J. The evolution of retirement income: A 2022 snapshot. Canberra: National Seniors Australia and Challenger, August 2022. <https://nationalseniors.com.au/uploads/Final-Challenger->

National Seniors Australia believes the following issues with the proposed objective risk undermining superannuation:

- It neglects accumulation as a critical part of superannuation
- It focuses narrowly on income, neglecting the role of capital in consumption
- It includes reference to government support, when in fact superannuation and government support are part of a wider retirement income system
- By including language aimed at restricting early access to superannuation it could potentially undermine access to superannuation for people with life limiting illness.

While we acknowledge the intent of the proposed objective is to make create a more focused superannuation system, National Seniors Australia would recommend that the objective be worded in a simpler manner, one that avoids unintended risks from an overly narrow and prescriptive definition.

In this regard we offer the following alternative objective:

***The objective of superannuation is to encourage people to accumulate adequate savings, which helps them achieve a comfortable standard of living in later life.***

We believe this objective would have greater support from the wider public as it is aspirational, flexible and reflects the public understanding of superannuation.

We provide further detail and explanation in response to questions 1 and 2 below.

Your Sincerely



**Ian Henschke**  
Chief Advocate  
National Seniors Australia

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[report-22.8.22.pdf](#) Note: Participants could select more than one response. Percentages represent the proportions of those with retirement savings (n=2746) who had accumulated their savings in a particular category.

## Response to consultation questions

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

In principle, National Seniors Australia supports the idea of legislating an objective for superannuation.

We believe an objective will help to foster shared understanding about superannuation and guide future superannuation policy.

However, there are risks inherent in setting an objective if it is overly prescriptive or in conflict with existing public perceptions and expectations about superannuation and its role in supporting consumption in later life.

In this regard, it is important to take a step back when seeking to define the purpose of objective of superannuation.

In our view, superannuation can be defined as playing a critical role in supporting consumption in later life - when the ability to earn income from employment reduces or ceases.

In this regard, we must recognize there is no linear path or age at which a person disengages from participating in the workforce.

While government policy determines the age when a person becomes eligible for regular government support for consumption in later life, this age is in many respects arbitrary.

While some people have the luxury to choose when "retirement" occurs, for others this is beyond their control and results from changed life circumstance, e.g., ill health, or due to unique financial pressures, e.g., ongoing mortgage commitments.

As National Seniors Australia research has shown, as much 37% of people aged 50-59 have a mortgage.

If a couple in this age group experienced significant ill health and lost their jobs before reaching preservation age, they may need to access their superannuation to pay off an outstanding mortgage to relieve financial pressures.

When you combine rising housing costs with evidence showing the link between home ownership and financial security<sup>2</sup>, it is logical that people in this situation would want to use superannuation to avoid losing their home.

Superannuation policies must be flexible enough to reflect this variability in life's pathway, which means any legislated objective must also be flexible.

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<sup>2</sup> National Seniors Australia and Challenger 2022. *Owning your home – key to retirement financial security*  
<https://nationalseniors.com.au/news/featured-news/owning-a-home-at-older-ages-is-a-key-driver-of-financial-security-in-retirement>

Another potential risk in defining an objective is if it results in policy that is inconsistent with the system as it currently operates.

As noted in the Retirement Income Review, “Australia’s compulsory, privately managed superannuation system is unique.”<sup>3</sup>

Unlike other countries, Australia’s superannuation system does not impose rigid pension plans with set incomes. European pension schemes, for example, provide beneficiaries with a defined income stream, but do not give access to capital via lump sum payments as is the case in Australia.

Superannuation in Australia is more flexible. People have greater control and responsibility to manage the use of capital to support later life consumption.

Rather than simply be passive recipients of an income stream, Australians are required to be more active in their financial planning. While this necessitates a level of financial literacy which some people may never attain, it could be argued that it fosters active engagement which could be viewed positively as encouraging financial literacy out of necessity.

While past National Seniors Australia research suggests older people value steady income streams and income that last a lifetime (see Figure 1, below), that does not mean they are willing to forego access to and control over capital, which they currently enjoy.

Government should not enact an objective of superannuation which removes the ability of older people to retain control of their capital as this would be seen as highly regressive.

It is better to have a flexible system that offers individuals opportunities to manage market and longevity risks if they so wish, and more support to educate people about the options open to them.

Much of the recent reform of superannuation has been focused on encouraging people to make use of products that convert capital into income streams, and this is a positive development because it increases choice.

Further, policy reform through the retirement income covenant and the proposed reforms to the financial advice sector encourage the superannuation industry to provide information and advice that assists management of capital for the purpose of managing consumption.

There is a risk that the focus on “income” in the proposed objective risks defining a very narrow interpretation of the purpose of superannuation, one that is out of step with public perception.

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<sup>3</sup> Australian Government The Treasury 2020. *Retirement Income Review: Final Report*. July 2020  
<https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf> p85

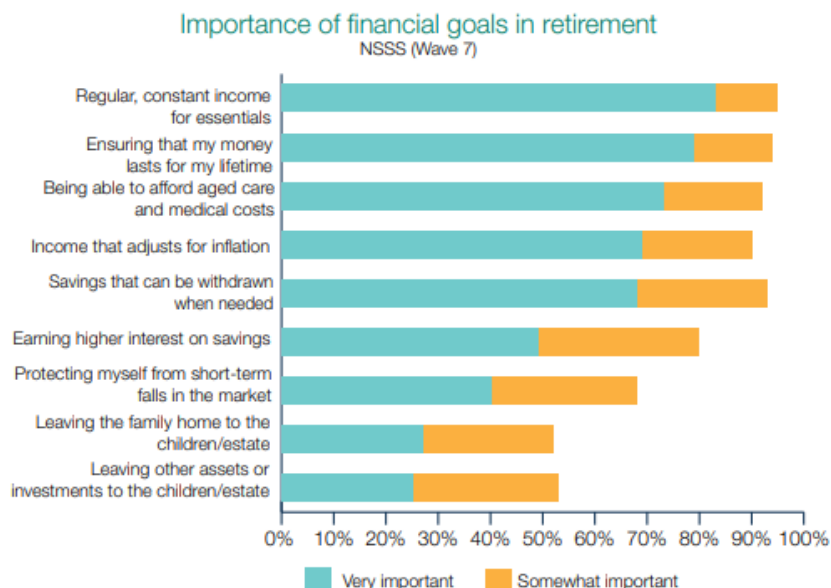


Figure 2: Rating of retirement goals (%)<sup>4</sup>

Most Australians understand that asset accumulation is a means to an end. Throughout their working life they are focused on the balance of their fund and the returns to that fund from their respective superannuation account.

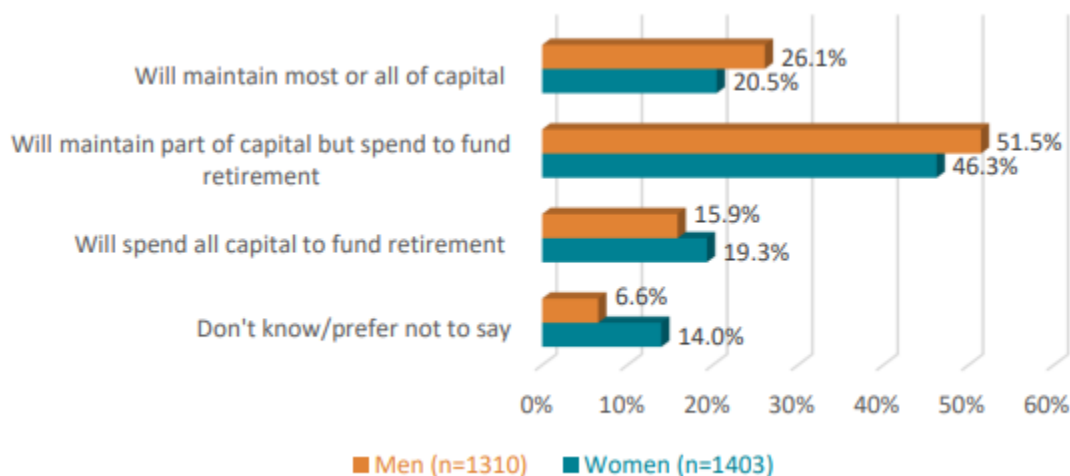
Even when reaching an age where they need to also view superannuation through the lens of income and the longevity of income, we would argue that people continue to view superannuation through the lens of capital and seek to maintain capital to meet consumption needs in later life.

We would argue that people are preoccupied with the concept of maintaining capital in retirement for several core reasons.

The first is that people fundamentally understand the principal that capital is a means of generating income and that the preservation of capital helps to maintain income. Our evidence for this is that we regularly hear directly from older people concerned that drawing down their capital impacts on their income in the future.

The second is people understand consumption in later life is not smooth. It requires access to capital to pay for irregular costs. As figure 4 below shows, a primary reason for maintaining access to capital is to assist in meeting medical and health costs, which are irregular and can be large.

<sup>4</sup> National Seniors and Challenger. 2018. *Once bitten twice shy: GFC concerns linger for Australian seniors*. Brisbane: National Seniors. <https://nationalseniors.com.au/research/finances/once-bitten-twice-shy-gfc-concerns-linger-for-australian-seniors>



**Figure 3: Intention to maintain capital in retirement according to binary gender (n=2713). <sup>5</sup>**

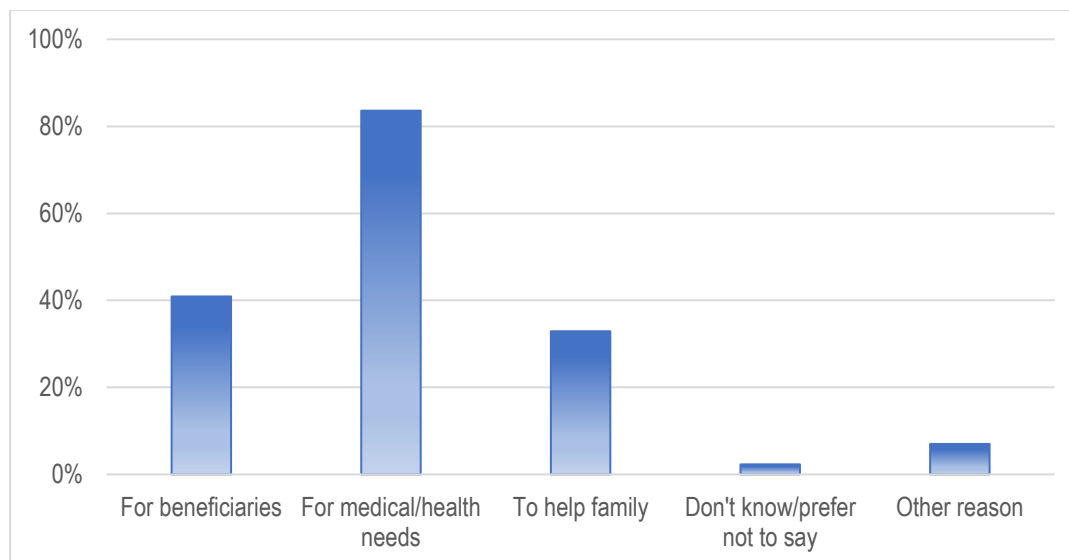
In this regard, we would caution against mandating a rigid superannuation objective. It risks shifting superannuation policy away from the current flexible approach (which allows control over and access to capital) and would likely be viewed as negative in the eyes of the public.

The third is that capital remains, for some, an important part of an estate to be gifted to future generations. As Figure 4 below shows, while this is a subsidiary interest to concerns about meeting costs associated with health and medical care, it is a view held by older people.

While government may consider this to be an anachronistic view, in need of change, and see the proposed objective of super to foster this change, we argue there is significant risk in doing so if it conflicts with prevailing public perceptions of superannuation, which are unlikely to change rapidly.

For the reasons outlined above we believe there is significant risk that a narrow objective of superannuation may have negative consequences for superannuation policy and for people when they reach a time when they will rely on superannuation to help achieve a comfortable standard of living.

<sup>5</sup> National Seniors and Challenger. (2018). *Once bitten twice shy: GFC concerns linger for Australian seniors*. Brisbane: National Seniors. <https://nationalseniors.com.au/research/finances/once-bitten-twice-shy-gfc-concerns-linger-for-australian-seniors>



**Figure 4: Reasons for maintaining capital in retirement (n=1959)\*<sup>6</sup>**

## 2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

We are concerned some elements of the proposed objective are not in alignment with our understanding of the objective of the superannuation system in Australia.

We address these with reference to the specific phrases outlined in the discussion paper and then offer an alternative objective for consideration.

***Preserve savings*** – “restricts access to superannuation savings for a person’s retirement only”

The first issue with this wording is the focus on preserving savings only for retirement.

<sup>6</sup> Hosking, D., Minney, A. and McCallum J. The evolution of retirement income: A 2022 snapshot. Canberra: National Seniors Australia and Challenger, August 2022. <https://nationalseniors.com.au/uploads/Final-Challenger-report-22.8.22.pdf>

\*Graph refers to the subgroup of NSSS-10 participants who had capital and said they intended to maintain it. Participants were able to select more than one category. Other category generally includes detailed descriptions or more specific explanations of the reasons for maintaining capital.



While we acknowledge that allowing access to superannuation during the COVID-19 pandemic to support income for people who lost their jobs was potentially flawed, we are concerned the emphasis on restricting access to a person's retirement emphasizes a linear retirement path.

There are many people who are forced out of the workforce who would not view themselves as being "retired".

A clear example is someone who has left the workforce for health reasons. This person may be facing an illness that requires significant funds to receive private health care treatment. These costs might only be addressed by early access to superannuation.

Their illness may be temporary as they may, through treatment, resolve their health issue and then rejoin the workforce or they may prolong their life because of the treatment.

While government has been at pains to argue access would be allowed in these circumstances, a strict reading of the proposed objective would mean such people would not be eligible.

While it may appear pedantic, it is problematic to legislate an objective which is designed to guide future policy, if government then must ignore the objective to provide exemptions for people who do not fit the objective.

It is also worrying the proposed objective says nothing about accumulation. It appears the objective and discussion paper is preoccupied with the draw down phase of superannuation.

This is a significant omission given that accumulation is an important part of the superannuation system.

We therefore believe it is unwise to refer to preserving savings in the objective and would suggest instead that the objective include a more aspirational reference to encouraging accumulation.

## **Deliver income – “emphasize the principle of superannuation – to provide income in retirement”**

As noted in the response to Q1, the narrow focus on income, neglects the importance of capital as a tool to meet consumption needs throughout later life.

As it was argued, consumption is not uniform or consistent and there are a great many reasons why a person needs capital to meet unusual or large living expenses that cannot be met by regular income streams.

One of the fundamental benefits of the Australian superannuation system – that we allow access to both capital and income – sets it apart from other countries and this should be protected.



While it is potentially important to emphasize the role of super in generating income, it should not do so in a way that undermines the importance of capital. Otherwise, it will fail to reflect the practical experience of older people in meeting their consumption needs.

**Dignified** – “denotes the importance of financial security and wellbeing in retirement”

While we supported the inclusion of reference to dignified retirement in our submission to the 2016 objective consultation, we believe it would be better to replace this with the phrase “comfortable standard of living”.

We would now argue the phrasing “comfortable standard of living” would be more aspirational and in line with public sentiment about the purpose of superannuation.

**Government support** – “intends to encapsulate and highlight the superannuation system’s interaction with the Age Pension pillar, as well as other government support”

We do not support the inclusion of a reference to government support within the objective.

Government support exist regardless of superannuation as a safety net to provide older people with a dignified retirement regardless of their capacity to engage in the workforce.

While it is true government support, such as the Age Pension, interacts with savings from superannuation and other means, this is to restrict access to the pension and reduce costs to government.

As such, we do not believe the specific reference to government support is warranted because it is not a part of the superannuation system.

**Equitable and sustainable** – “signifies that the system should provide similar outcomes for people in similar circumstances and government support should be targeted to those in need. Superannuation also needs to fit within the broader fiscal strategy”

We support the inclusion of the term equitable.

A core tenant of democratic government is that people are treated equally, and this principle should be applied with regards to the superannuation system.

We reject the way the discussion paper portrays superannuation as linked to government support.

As noted above, this is only in reference to rules that reduce access to government support, primarily the Age Pension. The Age Pension is not part of the superannuation system, superannuation is part of the retirement income system, or more correctly a system that supports consumption in later life.

We agree government superannuation policies, such as tax concessions, which help people build superannuation and support consumption should be fiscally sustainable, but the current wording is potentially problematic.

## Alternative wording

Taking this together, we would like to offer an alternative set of wording for the objective of superannuation.

This wording is simpler and avoids any risks from providing a narrow definition of the objective that ignores the importance of capital as a key tool to meet consumption needs.

Our alternative objective also includes reference to accumulation, which is a serious omission in the proposed objective.

It also includes reference to adequate savings, which focuses attention on the need for the system to be sustainable.

***The objective of superannuation is to encourage people to accumulate adequate savings, which helps them achieve a comfortable standard of living in later life.***

### **3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?**

No comment

### **4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?**

No comment