

# Greater retirement outcomes

UNISUPER SUBMISSION ON THE OBJECTIVE OF  
SUPERANNAUTION

1 June 2023

## About UniSuper

UniSuper began with a single, compelling idea: we can deliver better value. We're now one of Australia's largest super funds, with more than 620,000 members and over \$115 billion in funds under management.

We're passionate about securing the future of our members, sharing in a wealth of wisdom and collective know-how.

We empower our members to be confident about their future and make better financial decisions.

### About this submission

UniSuper would welcome the opportunity to discuss the submission further and to provide additional information in respect of the comments made in this submission.

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## Personalised replacement rates and lifetime consumption smoothing should be a key focus

Everything we do at UniSuper revolves around the simple goal: provide the best possible retirement outcomes for our members. In our view, the purpose of superannuation is to provide replacement income to retirees at a level greater than the Age Pension alone in order to facilitate lifetime consumption smoothing. Further, we believe that each member should target their own replacement rate to maintain their standard of living into retirement. In other words, retirees should be able to maintain their standards of living into retirement with an appropriate replacement rate of income.

UniSuper supports seeking broad agreement that the objective of the superannuation system is to preserve savings and to provide income in retirement. We have a long history of paying pensions to our members and we would welcome such an objective.

We believe that a legislated objective would give industry and policy makers clear guidance that superannuation's primary focus should be on the provision of income in retirement. Stability and certainty to policy settings will bring clear benefits to both members – who need to make long-term decisions – and to trustees who also have to make long term planning decisions about how to deliver great member outcomes rather than divert resources to respond to ongoing policy change.

### Lifetime consumption smoothing and dignified retirement

While the focus of Treasury's consultation is on the process of legislating an objective of super, once legislated, the objective will lead to further discussions about striking the balance between preserving savings and delivering income, what a dignified retirement looks like, the targeting of government support and the equity and sustainability of the system overall.

We believe that when evaluating future policies against the objective the key consideration should be the effect of any policy on replacement rates and the ability of retirees to smooth their consumption over their lifetimes. Lifetime consumption smoothing was a key subsidiary objective recommended by the Financial System Inquiry (2014) and it remains a core design feature of defined benefit schemes and any well-designed pension system.

We do not support, however, enshrining specific system-wide replacement rates or conceptions of dignified retirement. As the consultation paper recognises: "financial security and wellbeing in retirement...does not necessarily equate to the same level of income in retirement for all Australians."

The idea behind replacement rates is to ensure that retirees' standards of living in retirement are broadly equivalent to that enjoyed during their working lives. For some retirees, the Age Pension will fully replace their pre-retirement income, providing a replacement rate of 100%. For others, a combination of superannuation and the means tested Age Pension will replace some but not all of their income, providing a replacement rate of around 85%. While for others, who are able to fully self-fund their retirement and receive their income solely from superannuation, a target replacement rate of somewhere between 70% and 85% is consistent with international pensions literature.

An Objective, if legislated, could serve as a useful yardstick for future policy decisions affecting the superannuation system. A well-functioning legislated objective should also leave super fund trustees to their core business of delivering retirement outcomes, fulfilling other duties under the SIS Act such as core and ancillary purposes, and other important duties to under the investment, insurance and retirement income covenant. To the extent that future policy choices recognise and support super trustees delivering on their obligations under the legislated Retirement Income Covenant the better.

At UniSuper, delivering great retirement outcomes is central to what we do and, in many ways, is our objective of superannuation.

## Consultation questions

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

Planning for retirement requires stable, long-term policy settings. If there are regular changes to contribution rules and limits or changes to access to monies after preservation age or to the tax settings or the interactions with means-tested government income support, confidence in the superannuation system is undermined.

To the extent that legislating an objective of superannuation leads to more stable policy settings, there are practical benefits for members and for trustees of super funds.

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

In our view, the purpose of superannuation is to provide replacement income to retirees at a level greater than the Age Pension alone in order to facilitate lifetime consumption smoothing. We believe each member should target their own replacement rate to maintain their standard of living into retirement. In other words, no retiree should be worse off in retirement than they were during their working years.

We support recognising the importance of government support in all its forms, particularly the ongoing and important role the Age Pension pillar plays. For many people, their income in retirement will be a combination superannuation and some Age Pension. In fact, the Retirement Income Covenant now requires trustees to, among other objectives, maximise retirement income taking into account the Age Pension and any other relevant income support payments, such as social security payments or veteran entitlements.

To the extent that future policy choices recognise and support super trustees delivering on their obligations under the legislated Retirement Income Covenant the better.

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

The objective should sit in stand-alone legislation to properly ensure the focus is on government policy and decision making, not that of trustees. Further, for it to be effective and to serve as a "yardstick" – as contemplated by the consultation paper – a number of important statements on the purpose of the Objective should be clearly stated in the legislative enacting the objection to confirm that the objective:

- only applies when assessing proposed reforms;
- would not affect the interpretation of existing legislation;
- in particular, does not alter the character of the sole purpose test or a trustee's ability to offer both core and ancillary services; and
- would not be binding on trustees.

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

The Consultation Paper proposes that the existing policy development and parliamentary scrutiny processes would provide checks and balances ensuring that changes to the superannuation system are compatible with the objective. Further, that policy makers would consider how changes to policy fit within and impact existing legislation.

Provided that the important statements (referenced above) are included in the EM to support the legislation and provide guidance as to the intent behind the objective, it is ultimately up to the Parliament to scrutinise Bills.