



21 June 2013

The Treasury
Langton Crescent
PARKES, ACT, 2600
Attention: Charter Group
Email: supercharter@treasury.gov.au

Dear Treasury,

AFA Response to the Discussion Paper on the Charter of Superannuation Adequacy and Sustainability and Council of Superannuation Custodians

The Association Of Financial Advisers Limited (“**AFA**”) has been serving the financial advising industry for over 65 years. Its aim is to provide members with a robust united voice, continually improve practices and focus firmly on the exciting, dynamic future of the financial advising industry. The AFA also holds the client to be at the center of the advice relationship and thus support policies that are good for consumers and their wealth outcomes.

With over six and half decades of success behind it, the AFA’s ongoing relevance is due to its philosophy of being an association of advisers run by advisers. This means advisers set the agenda, decide which issues to tackle and shape the organisation’s strategic plan.

Thank you for the opportunity to provide feedback on the discussion paper on the Charter of Superannuation Adequacy and Sustainability and Council of Superannuation Custodians. It is the AFA view that stability in the regulatory arena for superannuation is critical. It is only with stability that consumer confidence can return. Consumer confidence is critical to ensuring the necessary level of voluntary contributions and the avoidance of lump sum withdrawals that is required to reduce the level of reliance on the public age pension. The AFA is supportive of initiatives that will drive an increase in stability and consumer confidence.

In our submission we have responded to each of the questions in the discussion paper

Question 1: What is your view of the core principles outlined above?

We support the core principles set down in the discussion paper.

Question 2: Are there any additional principles that are important in setting retirement income policy?

In our view, financial advice is a critical element in maximising the retirement income outcomes for Australian individuals and the Australian economy. This is particularly the case for those Australians who have not had access to the full benefits of the Superannuation Guarantee Charge (SGC) for a decent proportion of their working lives. Voluntary personal contributions are important and this is most likely to eventuate for people who receive advice. In fact, research that we have undertaken, indicates that clients with advisers, achieve better financial and emotional outcomes.

We recommend an additional core principle as follows:

Access, based upon the promotion of financial advice and education on superannuation.

Question 3: What safeguards can be placed on changes in the superannuation system to promote certainty?

To promote certainty and thus confidence in the system, we recommend the following:

- Changes should be based upon clearly defined long term objectives.
- Grandfathering of existing arrangements should be the preferred approach to remove the risk of retrospective changes.
- Any changes should not have immediate effect, but should have a delayed commencement date (possibly at least 12 months).

Question 4: How should the Charter reflect procedural fairness, including providing adequate notice of future changes and an open and transparent consultation process?

All changes should be subject to an audit or review based upon the Charter and be subject to public feedback from the Council of Superannuation Custodians.

Question 5: What would be appropriate benchmarks for measuring the adequacy of the superannuation system?

The AFA supports the increase in the SGC to 12%. Alongside this we strongly support measures that encourage an increased level of voluntary contributions. We also support the increase in the Concessional Contribution Cap for older Australians and would like to see further increases in the cap for all Australians.

Question 6: What principles would support fairness in the distribution of government assistance in the retirement income system and how should they be incorporated into the Charter?

We believe that fairness should be assessed in a long term and broad context. Those people on higher incomes, will be likely to take better advantage of the preferential taxation treatment of superannuation during their working years, however they are also much less likely to take

advantage of the Australian age pension system. We should place a capital value on a government pension, and in terms of the full pension, this is likely to be a very large sum.

The issue of fairness needs to be looked at from a broader perspective, taking into account the level of retirement income support provided throughout an individual's life. It is inappropriate to just consider the relative fairness of concessional contributions during the working years.

Question 7: What limits could be placed on government assistance and how should this be measured?

The limits are already in place, based upon the following:

- The contributions tax rate,
- The concessional contribution tax cap,
- Eligibility criteria for the age pension, and
- The rate of the Government pension.

Question 8: How should the costs and benefits of the superannuation system be measured?

We believe that the reporting of the superannuation tax concession in the same context as Government expenditure is a mis-representation of the reality. To a large extent, superannuation tax concessions are an investment in the future. This is an excellent measure to incentivise savings, which is hugely beneficial for the economy and the future budget position of the Federal Government. Superannuation tax concessions also need to be considered in the context of the alternative uses of the funds for those who have available funds to be spent elsewhere. Money is highly likely to be redirected to other areas where concessional tax arrangements exist.

We also seek to make the point that international comparisons recently undertaken by Mercer suggest that the Australian model is not generous and in fact our contributions taxes and investment earning taxes are higher than international benchmarks. We believe that the Charter should appropriately identify international comparisons and best practice.

Question 9: How should the Charter take into account the goal of administrative simplicity and balance this against objectives such as fairness and sustainability?

Simplicity of the system is essential. Simplicity drives efficiency and this contributes to effective cost management, which is beneficial for all stakeholders. Simplicity also contributes to certainty, as people are more likely to understand how the taxation arrangements work and have confidence in the system. We continue to support a single contributions tax rate across all Australians, with the scale of the concession managed through the limitation of concessional contribution caps.

Simplicity also needs to cover the ease of consolidation of super funds. In order to enable consumers to consolidate old superannuation accounts into a preferred option, simplicity in this process is important and will drive greater efficiency for consumers, advisers and superannuation funds.

For the points raised above, we do not see any major problem with the balance between sustainability and fairness.

Question 10: What weight should be given in the Charter to the considerations below?

- **Recognising the inherent trade-offs involved in the retirement income policy**
- **Considering the interactions between the superannuation system and other elements of Australia's retirement income system, for example, other savings vehicles and government support such as the Age Pension.**
- **Recognising the intergenerational costs and benefits of superannuation savings and tax concessions.**

The AFA strongly supports the role that the Australian superannuation system plays in supporting the Australian economy and providing for the future retirement incomes of Australians. We strongly support the longer term benefits of the system.

Question 11: How would the Charter reflect the impact of superannuation changes on the broader economic environment?

The Charter needs to reflect the broader importance of superannuation as a key driver of the Australian economy and also the importance that confidence in the superannuation system will also have a longer term effect on the contribution that the superannuation system has on the overall economy.

Question 12: Should the Charter be a policy document, or be enshrined in legislation?

We believe that the Charter needs to have some formal backing. It is essential that the Charter could not be easily changed in the absence of broad industry and consumer consultation. The manner in which the Charter is documented and modified over time is important in ensuring that the long term objectives of the superannuation system remain primary in the consideration of superannuation policy.

This would probably be best reflected by the means of a legislative solution, although we recognise that there may be other ways of achieving this objective.

Question 13: Should the Council also be able to examine and report on issues on its own initiative?

Yes. It is important that the Council have a level of independence and this should include the ability to identify areas where further research or investigation is likely to be beneficial.

Question 14: What powers should the Council be given in order to effectively carry out its role?

We support the powers set out in the discussion paper.

Question 15: Should the Council have the capacity to recommend policy changes?

Yes the Council should have this capacity. The Council will have access to expertise and research that is likely to lead to the generation of ideas with respect to policy change. Whilst there will be some level of conflict in the role of the Council in reviewing proposed policy changes, when they are the source of the recommendation, it remains the Government's decision as to whether the recommendation is implemented.

Question 16: How should the Council be assembled to adequately reflect the wide range of community views on superannuation?

Whilst broad community representation is desirable, it will be important to balance this with the manageability of the Council, the avoidance of unnecessary focus on vested interests and the access to expertise. The structure and representation of the Council will be key to its effectiveness.

Given the importance of the Council, we recommend that in the selection of the Council, appropriate knowledge and expertise should take precedence over the objective of broad representation. This is an important entity, where the selection of people who can provide a higher level policy perspective is essential. We also recommend that mechanisms are put in place to ensure that the timeframe for appointment to the Council is subject to limitation (maybe a maximum of 5 years) and that at any point of change of personnel, there is sufficient ongoing personnel to ensure continuity of thought (ie maximum of 25% turnover in any year).

Question 17: How would the work of the Council relate to the activities of existing bodies?

It will be important that the scope of the Council is clearly defined and that this scope will align with the role of other entities. The Council should focus upon policy and operate at a high level, rather than get involved in the detailed implementation of policy.

Question 18: Will the establishment of the Council require changes to the role or structure of existing superannuation oversight bodies?

It is difficult to respond to this until the Charter has been prepared and an assessment is done of any cross-over with the activity of other oversight bodies.

Question 19: What structure and supporting legislation is necessary to ensure the Council operates at arms length from Government?

We support the thinking in terms of seeking to identify an existing model that operates effectively and adapting that to the intent of the Council.

Conclusion

We support mechanisms that will better ensure that the Australian superannuation system prospers. To the extent that the Charter and the Council will contribute to this, we would be supportive.

We thank you for the opportunity to contribute to this consultation process.

Should you have any questions, please do not hesitate to contact me on (02) 9267 4003.

Yours sincerely,

Philip Anderson
Chief Operating Officer