

21 June 2013

The Treasury  
Attention: Charter Group  
Langton Crescent  
PARKES ACT 2600

Email: [supercharter@treasury.gov.au](mailto:supercharter@treasury.gov.au)

Dear Sir/Madam,

## **Discussion paper: Council of Superannuation Custodians and Charter of Superannuation Adequacy and Sustainability**

AustralianSuper is pleased to provide this submission in relation to the above named discussion paper.

### **About AustralianSuper**

AustralianSuper is an industry superannuation fund that is run only to benefit our members. With over 2 million members and \$62 billion in members' assets, we use our scale to deliver as much value as possible for members. With this focus on members' best interests, we strongly support the proposal for a Charter of Superannuation Adequacy and Sustainability and provide the following responses to specific questions that are asked in the Discussion Paper about the Charter:

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

AustralianSuper is fully supportive of having a Charter to enshrine the core objects, values and principles of the Australian superannuation system. As the pool of superannuation savings continues to grow, it is imperative that protective consultation and review measures are placed around the superannuation system to cushion it from the uncertainties arising from legislative risk.

Such measures should assist in enabling Australians to have confidence that superannuation policy is consistent with long term goals of providing for a secure and comfortable retirement income. Public confidence in superannuation will improve if superannuation is taken out of a political framework and a revenue-raising framework.

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

We think it is important to have a strong link between the principles that are important in setting retirement income policy, and superannuation products in the market, such that those products are actually 'fit for the purpose' of meeting retirement income policy objectives.

Superannuation is a long term compulsory investment and is also a financial product with a social policy component. Superannuation should be able to provide sufficient retirement savings to augment, and for some Australians, replace the Centrelink Aged Pension for most working Australians. To the extent that this public policy objective is NOT met, the taxpayer ultimately bears the burden to fund - via the Commonwealth Government - the Centrelink Aged Pension for those who have insufficient retirement savings.

Superannuation is a public/private sector partnership in Australia – the tax concessions provided to superannuation by the Government should reasonably be subject to some review of their

effectiveness in assisting the overall retirement income policy objective of replacement of replacement of part/all of Government funded support for the Centrelink Aged Pension.

To this end AustralianSuper thinks it is important to ensure that any superannuation products that are provided to Australian consumers should be fit for the purpose of meeting the Government's objectives in superannuation. The concept of 'fit for purpose' should be included in the principles that are important in setting retirement income policy.

The details of how to test whether a superannuation fund or product is 'fit for purpose' would require some level of consideration by Regulators and from research. It would mean that the product design and cost would be judged on its likely capacity to deliver an adequate retirement income for investors given set contribution, time and investment parameters.

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

There are two options that AustralianSuper would suggest require consideration.

As a minimum draft legislation should be subject to a review process prior to being released for public consultation. The review would comprise a check against whether the objectives and potential market and consumer outcomes of the proposed legislative changes would conform to the core principles outlined in the superannuation charter.

Further legislative instruments, including regulations, prudential standards and exemptions and modifications of the relevant laws would also be subject to the same process of review.

The Review could be conducted by the office of the Council of Superannuation Custodians prior to release of exposure drafts of legislation for consultation.

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

The Charter could include a model consultation and development process to be adopted for reforms relating to superannuation. Under the suggested safeguards outlined above, a review would be conducted as a check against whether the objectives and potential market and consumer outcomes of the proposed legislative changes would conform to the core principles outlined in the superannuation charter. Such a review could consider whether compliance with the model consultation and development process has been complied with, or is factored into the future consultation processes in relation to the said reforms.

This process could also apply to all legislative instruments, including regulations, prudential standards and exemptions and modifications of the relevant laws.

The model consultation process for superannuation reforms could include some key features:

- Grandfathering: Does the proposed reform have a different impact on different generations? Will grandfathering the reform provide a more equitable outcome
- Announcements of reforms: Reforms relating to taxation often take effect from the date of the announcement to reduce avoidance behaviour. Is it necessary for the suggested reform to require no notice?
- Has the suggested reform been consumer tested? Have the outcomes of testing been factored into the final reform product?
- Does the suggested reform contribute to the development of superannuation products that are 'fit for purpose' in terms of being able to enable appropriate amounts of savings in superannuation to meet Superannuation Policy objectives?

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

AustralianSuper is generally supportive of the Discussion Paper's expressed aspiration for adequacy being a superannuation balance large enough to provide an income stream (including capital drawdown) of around 70 per cent of pre-retirement income over a 25-30 year period.

We would however, expect that any retirement income aspiration used as a benchmark would need to be flexible to deal with the long term, and necessarily take into account the following:

- That any benchmark that is based upon employment income also needs to take into account broken work patterns of many Australians who will also have to provide for all or part of their retirement income.
- That many Australians will look towards a future of part time work for a period before complete retirement.
- That over a period of time, expected life expectancies will increase and the system may need to cater for a retirement period greater than 25-30 years.
- Any aspirational measure based upon a percentage of income needs to be capped so that taxpayers are not burdened with funding tax concessions for retirement incomes for high income earners over a specified amount. Not to do so would raise doubts about the sustainability and equity of the system.
- The system may also need to cater for a potentially different retirement period for men and for women, leading to a different overall cap if the retirement income (including capital drawdown) has to last longer on average.
- Capital drawdown should be a mandatory, not discretionary consideration in establishing the appropriate benchmark.
- Contribution caps would still need to stay in place to ensure the integrity of these measures.

### 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?

AustralianSuper recommends that the following principles be incorporated into the Charter:

- Encouragement to save for retirement needs to be balanced against the taxpayer burden to provide concessional taxation treatment for those already able to provide for their own retirement.
- Consideration should be given as to whether reforms unfairly favour one generation or other cohort.
- Government assistance to the superannuation sector should be product neutral – it should not allow for different taxation concessions to be available depending on which superannuation product a consumer invests in.
- Government assistance in the form of taxation concessions should only be available for superannuation products that are 'fit for purpose' in terms of their capacity over the long term to provide a retirement benefit for the consumer, consistent with established retirement income policy objectives.
- Any consumer who invests in superannuation should not have to pay tax on their mandatory superannuation contributions that is higher than the tax they pay on their income.
- Preferably superannuation contributions should attract a concessional tax rate to recognise the preservation requirements of superannuation.

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

Having regard to the above measures, taxation concessions on earnings in superannuation should finish once the capacity to provide for a retirement income (including capital drawdown) above a certain level has been attained – that is, a predetermined benchmark applicable to all superannuation investors.

Taxation concessions on contributions should cease once the said benchmark has been attained. Where the benchmark has been attained and then goes backwards, the taxation concessions are not revived except in limited investment related circumstances where the investments held are at arm's length from the member.

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

The costs and benefits of the superannuation system should be measured solely on the following:

- The capacity to provide retirement benefits to Australians.
- To augment and as appropriate replace the Commonwealth Government provision of the Centrelink Aged Pension for most working Australians
- To enable all Australians to maintain a level of dignity in retirement.

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

The goal of administrative simplicity is not an objective in itself. The objectives of fairness and sustainability of the superannuation system should outweigh arguments about administrative simplicity, important though the latter is.

We note that the superannuation industry is now adept at dealing with administratively complex arrangements, and most administrative complexity is absorbed by the superannuation funds and financial advisers themselves, rather than the consumers of those products. This trend will continue with the commencement of MySuper.

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

- •  Recognising the inherent trade-offs involved in 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.

We suggest that the priority given to the above considerations should be as follows: 1, 2 and 3, noting that all these objectives are important and related.

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

The Charter should include a reference back to the following matters when considering the impact of superannuation changes on the broader economic environment.

- Whether the proposed changes potentially increase the capacity to provide retirement benefits to Australians.
- Whether the proposed changes will potentially augment and as appropriate replace the Commonwealth Government provision of the Centrelink Aged Pension for most working Australians
- Whether any other broader economic benefits can be attained from the changes to superannuation.

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

We suggest that the broad principles of the Charter be enshrined in legislation and then administered via a detailed policy document.

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

We suggest that the Council should be able to examine and report on issues on its own initiative.

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

AustralianSuper supports the Council having the following powers:

- The ability to make assessments of proposed superannuation policy changes against the principles of the Charter.
- The right to table these assessments in Parliament to inform consideration of any proposed legislation.
- The ability to conduct research and publish statistics and reports.

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

AustralianSuper supports the Council having the capacity to recommend policy changes.

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

AustralianSuper supports the Council having representation that has the following key features in order to adequately reflect the wide range of community views on superannuation:

- Representation needs to be completely independent of any superannuation and financial services provider.
- Separate consumer representation on the Council.
- Separate representation that overtly relates to retirees
- Likewise, separate representation for accumulation fund members.
- Separate representation for women given that they live longest and generally have lower account balances in superannuation given their broken work patterns in general.
- It is not necessarily for the Council to be comprised of experts themselves, but rather, they should be duty bound to seek up to date data and appropriate expertise as part of their role.

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

The work of the Council should be structured so as not to interfere with the roles of the respective Regulators and Government agencies.

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

The following amendments to the legislation relating to existing bodies needs to be considered:

- Information exchange powers between Regulatory agencies and the Council on a restricted range of matters.
- Consequential amendments to secrecy requirements as required.

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

AustralianSuper suggests that the Council be an independent statutory body similar to the Productivity Commission.

It would be comprised of part and full time members who are statutory appointments of the Commonwealth Government, with a small secretariat that has a research function, and appropriate funding to outsource key research projects for the Council.

Please do not hesitate to contact me on 03 8648 3847 if you wish to discuss this submission further.

Yours sincerely



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