

21st June 2013

The Treasury
Attention: Charter Group
Langton Crescent
PARKES ACT 2600



Via Email: supercharter@treasury.gov.au

Dear Sir/Madam,

Re: Charter of Superannuation Adequacy and Sustainability and Council of Superannuation Custodians

Cbus would like to provide a brief statement as to Cbus' role in superannuation and provide submissions in response to the discussion paper recently issued by Treasury.

About Cbus

Cbus provides superannuation services to construction, building, and allied industry workers and retirees, their families. It is a public offer fund.

Cbus was established in 1984, and is one of Australia's oldest industry funds. The fund has more than 700,000 members and 80,000 contributing employers. Cbus manages assets currently valued at over \$22 billion.

Core Principles

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

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

The principles identified are the appropriate considerations in developing retirement incomes policy but suffer from a lack of definition.

On the one hand, broad principles would give the Council wide scope to apply the Charter in shaping its advice to government. However the proposed principles do not give the Council any guidance in prioritising one principle over the other. This will make it difficult for the Council to find a balance when dealing with conflicts between principles.

Terms like fairness and sustainability will inevitably invite debate. It may be useful to consider providing the Council with some guidance, such as additional descriptions in the charter or in the explanatory memorandum and other accompanying legislative material.

A common device is to enumerate indicative but non-binding and non-exhaustive factors under each broad heading.

Cbus believes that the term fairness should be clearly understood to mean progressivity in retirement incomes policy (both in terms of the eligibility for income support and taxation on savings).

All correspondence and payments to:

Melbourne
Locked Bag 999
Carlton South
VIC 3053
www.cbussuper.com.au
Phone: 1300 361 784
Fax: 1300 361 794

Counter enquiries:

ACT

Level 2
11 London Cct
Canberra

NSW

Level 5
477 Pitt St
Sydney

NT

C/- Level 2
104 Frome St
Adelaide

Qld

Level 10
120 Edwards St
Brisbane

SA

Level 2
104 Frome St
Adelaide

Tas.

Level 2
119 Macquarie St
Hobart

Vic.

Level 2, Casselden Pl
2 Lonsdale St
Melbourne

WA

Level 2
12 St Georges Tce
Perth

Cbus believes that it would be useful to include specific reference to “efficiency” either as a fifth principle, or as a sub-point of the “sustainable” principle.

Certainty

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

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

In a representative democracy Government must be able to make changes consistent with the electoral mandate and circumstances of the time. Natural disaster, war or economic crisis rightly requires social contracts to be re-considered. But less calamitous changes inter-act with retirement incomes policy. For example, changes in aged care policy will impact upon the incomes needs of older Australians. Thus the principle of certainty in retirement income is not absolute.

“Certainty” should be seen in a broad social context that recognises its interaction with the wages system, access to housing, health services, elder care and the like.

Government must be able to change superannuation legislation (for example in the pursuit of sustainability) even if those changes compromise the certainty principle. Argument for certainty should nor be a prop for otherwise unfair or unsustainable policy settings. But given the time frames over which the (social) superannuation contract is fulfilled, the community needs to be able to participate in a process that ensures that all voices heard and that a reliable evidence base has been considered.

Therefore, certainty, (or confidence) may be attained through the process of change, rather than by resisting otherwise beneficial change.

Procedures that support confidence in the change process include:

- Allowing a reasonable period for the taking of evidence from interested parties.
- Commissioning research as to the impact of proposed changes.
- Reporting on impact of proposed changes to government and community.
- Exploring and identifying modifications to proposed policy that might meet Government objectives in a way that is consistent with the principles.
- Activities that promote awareness of proposed change both before and after change is implemented.

The Council should seek to maximise the opportunities to create an objective evidence base as to the impact of change, provide opportunity for individuals and organisations to make representations and provide expert commentary.

Given the fluid nature of the Parliamentary process (for example last minute negotiations between parties or last minute amendments) the need for agility will need to be balanced against the need for a comprehensive process on a case-by case basis.

Adequacy

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

Cbus has previously considered the issue of defining adequacy, through its participation in the development of the joint AIST/ISN submission to the Henry Tax Review¹. That submission noted government reluctance to identify a benchmark (other than the aged pension).

The submission rejects the notion of a benchmark that is relative to an individual's pre-retirement income on the basis of inequity. Rather it favours an (updated) budget standards approach, derived from the spending patterns of "typical" households. It may be necessary to have two groups of retirees - the "active" phase, and the "elderly" phase, as spending patterns change around age 80.

Public policy should support the safety net (aged pension), and an adequate retirement income. Public support can be phased out up to a comfortable standard.

Fairness

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?

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

Government resources are limited, and tax concession or other incentives should be directed at the provision of adequate retirement incomes, not tax minimisation.

As noted above, Cbus supports a progressive approach to taxation and a graduated means (income) test in the allocation of other welfare benefits or services.

Specifically, we endorse the AIST/ISN submission to the Henry review, which argued that concessions can be withdrawn after individuals reach a level of savings sufficient to support a "comfortable" retirement. Development of robust budget standards to underpin this policy direction could underpin other areas of the tax and transfer system.

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

The key measure is the quality of life of retirees – self funded and part pensioners. Budget standards allow for regular assessments of the number of retirees whose income is sufficient to lead a modest lifestyle.

Within that key measure, there should also be compositional equity – i.e. there should not be segments of the community who fail to meet that standard.

While the success of the system should not be measured by the funds under management, it is true that superannuation savings provide capital to Australia capital markets, and this is a secondary, but important benefit of a well-functioning system. It should be within the Council's Charter to include this in its considerations, under the head of sustainability. This may lead to policy advice directed to the investment behaviour of funds or consumers.

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?

Efficiency could be an objective in its own right, or a subset of sustainability. However efficiency should not be confined to the administrators of superannuation, but the efficiency of the tax-transfer system for retirees.

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.*

These considerations are properly matters that the custodians would consider in framing recommendations to Government. If the role of the custodians is to merely protect the superannuation savings pool from policy change, they will not be able to provide government with helpful policy advice.

If the Charter were to include sub-objectives within the broad objectives (as suggested above) then these considerations could readily be reflected in the Charter through sub-objectives under the broad heads of fairness (trade-offs), adequacy (inter-action with other elements of the retirement incomes policy) and sustainability (intergenerational cost/benefit).

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

Through the application of the principles discussed above.

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

The Charter should be enshrined in legislation so that clarity of role and purpose is widely understood.

This would also have the advantage of ensuring parliamentary oversight of the government's policy-making framework. Any Government considering changes to the superannuation system would be cognisant of the Charter. The Charter itself would act as a brake on radical change that was inconsistent with the Charter's objectives.

Role and Powers of the Council

Question 13: Should the Council also 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?

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

Cbus envisages that the Council would have three roles.

- First, like the Productivity Commission, the Council would conduct research and publish discussion papers.
- Second, again like the Productivity Commission, government would refer matters to the Council for Inquiry, with specified terms of reference, timeframes, and an expectation of advice.

- Third, specific policy proposals or exposure drafts would be provided to the Council for review against the Charter.

The Council would need to be able to employ staff within its budget and commission research.

To effectively undertake these roles the Council will need sufficient authority and resources to conduct an Inquiry - including promotion of hearing, call for submission, and commission research.

The Council should have the capacity to recommend policy changes.

Structure of the Council

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

An over representation of technocrats on Council would risk limiting the nature and extent of community engagement. Whereas a Council dominated by community representatives is at risk of failing to fully engage at important levels of the policy debate.

The Council should be comprised of 'community' representatives and technical experts.

Relationship with other Bodies

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

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

Providing the Council with legislative clarity as to its purpose and role will enhance provide a proper basis for its relationship with other Government agencies.

Ultimately Government must determine its policy. Any tension between those providing advice is capable of enhancing the quality of the decision making process.

There is some risk that the Council's work would overlap with Treasury and PBO work. The agencies should be encouraged to be transparent about assumptions that underpin their modelling so that debate is focused on policy differences, not technical arguments.

Cbus does not envisage that the Council's role would overlap with any of the current superannuation regulators.

Establishment.

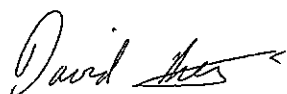
Question 19: What structure and supporting legislation is necessary to ensure the Council operates at arms length from Government?

For the Council to be effective it needs to be seen as a voice outside Treasury, (or other central agency) independent of the immediate imperatives of Government.

If the Council is an administrative unit within Treasury then community perception will be at significant risk of seeing compromised from outset.

The independence should not extend to a lack of accountability for responsiveness or the quality of analysis. It is envisaged the Council would report to Parliament on its performance and presumably be subject to review by the auditor general.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Atkin", with a stylized flourish at the end.

David Atkin
Chief Executive Officer