

Discussion Paper:
Charter of Superannuation Adequacy and
Sustainability and Council of
Superannuation Custodians

Contents

Foreword	3
Introduction	4
Charter of Superannuation Adequacy and Sustainability	5
Core Principles	5
Implementation	7
Council of Superannuation Custodians	8
Role of the Council	8
Powers of the Council	8
Relationship with Other Bodies	8
Establishing the Council of Superannuation Custodians	9
Making a Submission	10

Foreword



Australia's superannuation system is the envy of much of the developed world, but there are demographic and policy challenges that our nation must face up to if our system is to remain a world leader.

Today there are fifty of us in work for every ten of us in retirement. By 2050, there will be twenty-seven of us in work for every ten of us in retirement.

Australia has a three pillar approach to the provision of retirement incomes, comprising the means tested and publicly funded Age Pension, compulsory private savings through the Superannuation Guarantee arrangements, and voluntary private savings supported by taxation concessions.

The Age Pension remains the main support in retirement for those who are not able to save a sufficient amount during their working life. Superannuation was designed to reward and support all Australians to save for a comfortable, secure and financially adequate retirement.

We owe it to all Australians, present and future, to sustain a system that gives everybody a fair shot at a decent and dignified retirement. This is the ongoing objective of superannuation.

It is a task which requires long-term thinking.

Current and future Governments must recognise the need to provide superannuation policy certainty. To focus on what current generations of working Australians will want from their retirement in the decades to come.

Community confidence in superannuation is important – not just for the industry or the markets – but for those mums and dads, and sons and daughters, whose hard working wages are compulsorily deferred to provide for their retirement security.

We recognise that, fundamentally, superannuation represents a charter with working Australians. A charter that says, we will help you save for your retirement through mandated employer contributions and tax concessionality, and in return you are part of a wealth creating, job generating idea that sets Australia apart from much of the developed world.

On 5 April 2013 the Government announced it would establish an agreed Charter of Superannuation Adequacy and Sustainability and create a Council of Superannuation Custodians to serve as guardians of the Charter and ensure that any future changes to superannuation are consistent with the Charter.

I welcome the next step in the development of these reforms and invite Australians from all walks of life to participate in the process of developing the superannuation Charter and the Council of Superannuation Custodians.

The Hon Bill Shorten MP
Minister for Financial Services and Superannuation
Minister for Employment and Workplace Relations

Introduction

On 5 April 2013 the Government announced it would establish an agreed Charter of Superannuation Adequacy and Sustainability and create a Council of Superannuation Custodians to serve as guardians of the Charter and ensure that any future changes to superannuation are consistent with Charter.

On 9 May 2013, the Minister for Financial Services and Superannuation announced the appointment of Alan Goldberg, Elana Rubin, Jeremy Cooper, Ross Jones and Steve Tucker to a Charter Group, which will consult and advise the Government on the development of the Charter and the establishment of the Council.

The Charter will be developed against the principles of certainty, adequacy, fairness and sustainability. The Charter will enshrine the core objectives, values and principles of the Australian superannuation system.

The Council of Superannuation Custodians will be charged with assessing future policies against the Charter and providing reports to be tabled in Parliament.

In addition, the Council will provide an annual report on the superannuation system against the Charter, also to be tabled in Parliament.

Membership of the Council will be finalised following the outcome of this public consultation process, but could comprise eminent representatives drawn from the community, superannuation, legal, academic, public policy, business, union and regulatory sectors.

By establishing an independent and robust institutional framework through which all future superannuation changes are measured, the Council and Charter will ensure that Australia's superannuation system is enhanced and protected for generations to come.

The purpose of this paper is to assist the consultation process.

Charter of Superannuation Adequacy and Sustainability

The intent of the Charter is to enshrine the core objects, values and principles of the Australian superannuation system, so that Australians can have confidence that superannuation policy is consistent with long term goals of providing for a secure and comfortable retirement income.

Core Principles Underpinning the Charter

The Charter is to be developed against the core principles of certainty, adequacy, fairness and sustainability, in a context where:

- Community confidence in the superannuation system is important because workers' wages are compulsorily directed to it, superannuation savings are made over many years and cannot generally be accessed until retirement and it is important to encourage voluntary saving;
- The Age Pension provides a basic level of income support;
- People are living longer;
- People need to have sufficient savings to retire comfortably; and
- The policy considerations need to be de-politicised.

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?

Certainty

Superannuation is a long term investment. Superannuation savings made during a person's working life are likely to remain in the superannuation system for up to 40 years of working life and after 20 years post retirement.

Australians need to feel confident that superannuation policy is not politicised. While public policy, including superannuation policy, must be able to respond to changing economic and other circumstances, too much change can impose unnecessary costs and diminish the confidence people need to invest in superannuation. Given the long term nature of superannuation, there needs to be a high burden of proof on proposals for change.

Certainty includes considering the ability for people to plan or adjust to superannuation policy changes with confidence. This requires consideration of whether there is sufficient time for people to change their arrangements in relation to proposed policy changes.

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?

Adequacy

The Government is committed to encouraging Australians to build adequate savings for retirement.

The ageing population will see greater numbers of individuals entering retirement, and most individuals will hold substantial superannuation balances. The superannuation system will begin to mature from 2019, when the Superannuation Guarantee will reach 12 per cent. A person aged in their mid-twenties today will receive superannuation for around 40 years, with the Superannuation Guarantee rate at 12 per cent for over 30 of those years. However, there may still be gaps in superannuation coverage, such as individuals with broken work patterns or casual employment.

Superannuation is designed to reward and support all Australians to save for a comfortable, secure and financially adequate retirement.

There are different measures of adequate retirement income. The Age Pension seeks to provide a base level of income as a safety net in the retirement income system. The superannuation system aims to provide a higher level of retirement income, relative to a person's pre-retirement income, than would otherwise be possible.

A commonly expressed aspiration for adequacy is for 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.

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

Fairness

The equity of government contributions to individuals' retirement outcomes is critical to the fairness, acceptability and coherence of Australia's retirement income system.

Government contributions to retirement incomes will be made across the life cycle – through both the concessional treatment of superannuation and through Age Pension payments. This needs to be taken into consideration when assessing the fairness of Australia's superannuation system. People with higher asset levels in retirement are likely to have received the greatest assistance throughout their lifetime through significant superannuation tax concessions and the potential provision of part pensions.

The overarching objective of the superannuation system is to encourage people to save so that they may achieve an adequate standard of living in retirement. The superannuation system is not intended to be an open-ended tax concession for capital income, which remains a core tax base for the Australian system. Beyond a certain point, people do not need the same level of taxpayer assistance to build adequate retirement savings.

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?

Sustainability

Superannuation contributions and earnings inside the superannuation system are taxed at a lower rate than normal income for the vast majority of people. The value of superannuation tax concessions in 2012-13 (\$31.8 billion) is around \$9.2 billion less than the value of direct income support for seniors (\$41 billion).

Concerns have been raised about whether this is an appropriate way of measuring the fiscal impact of the superannuation system and the broader benefits of increased private saving.

There are a number of stakeholders in the superannuation system, including consumers, employers, superannuation funds, fund managers and financial advisers.

Whilst the main focus of the superannuation system is on assisting individuals to save for their retirement, the Charter could allow the Council to consider the potential impact of proposed superannuation changes on other stakeholders.

An important aspect of sustainability is administrative simplicity, but this needs to be balanced against a system that targets taxpayer assistance to those who need the most assistance to build adequate savings.

Some of the considerations that are important include the regulatory burden on business and complexity from a consumer perspective.

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

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?

Superannuation and Retirement Incomes

Australia has a three pillar approach to the provision of retirement incomes, comprising the means tested and publicly funded Age Pension, compulsory private savings through the Superannuation Guarantee arrangements, and voluntary private savings supported by taxation concessions.

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.*

Australia's Economy

Superannuation contributes significantly to national savings, employment, financial stability and economic growth. Superannuation in Australia today is worth about \$1.5 trillion – equivalent to our national GDP – and is expected to rise to around \$6 trillion by 2037.

Australia's superannuation system complements the financial services and insurance sectors. The financial and insurance services sector employs more than 410,000 Australians. Superannuation's contribution to national savings has risen from ½ per cent of GDP in 1992 to around 1½ per cent of GDP and, over the next few decades, is projected to reach 3 per cent.

This growing pool of domestic savings will provide an increasingly valuable stream of domestically-sourced finance, increasing the Australian economy's resistance to global shocks. There are benefits to saving more now to support a progressively older population, before the impacts of population ageing become more pressing.

As the pool of superannuation assets grows in its importance to the financial system, changes to superannuation need to be considered in the context of both retirement income policy and the broader economic environment.

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

Implementation of the Charter

The Charter could take the form of a policy document, be set by regulation or enshrined in legislation. The content of the Charter might be much the same under these different possible approaches, but the degree of formality would differ.

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

Council of Superannuation Custodians

The establishment of the Charter will necessitate the creation of a body, independent of Government, to provide advice to Government on superannuation policy.

Role of the Council

The Council of Superannuation Custodians is to act as an impartial, expert superannuation body, effectively 'stewards' of the superannuation system. Its role could be to:

- Assess the compatibility of proposed future superannuation policy changes or legislation referred to it against the Charter.
- Consult where required on issues referred to it by the Minister.
- Produce annual reports on the adequacy, performance and sustainability of the system.
- Conduct research and publish statistics.
- Make recommendations for improvements to the superannuation system.

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

Powers of the Council

To fulfil its role the Council could be given:

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

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?

Structure of the Council

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

Relationship with Other Bodies

The Council's powers will be clearly delineated. In considering the role and structure of the Council it is necessary to take into account how the Council will interact with existing bodies charged with monitoring the superannuation system or advising on superannuation policy. It would, in general, be undesirable if there were areas of duplication between the Council and other bodies. Any areas of overlap should arise as the result of deliberate decision rather than as unintended consequences. For example, the Council may provide advice on broader superannuation policy areas, such as whether further regulatory protection is required to promote confidence or protect retirement savings. However, the Council would not:

- Replace the Treasury as having primary responsibility for advising Government on superannuation taxation, regulation and prudential policy;
- Have power over regulatory or prudential settings. That would remain the responsibility of the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC); or

- Determine matters that are currently the preserve of the Australian Taxation Office (ATO), such as managing compliance with the sole purpose test and non-payment of superannuation entitlements.

Other bodies in this field include the Superannuation Complaints Tribunal, an independent dispute resolution body that deals with a diverse range of superannuation related complaints, and the Superannuation Consumer Centre, which the Government announced in the 2012-13 MYEFO would be established as a non-profit organisation with a primary focus on superannuation policy research and related consumer advocacy.

Existing superannuation advisory bodies include the Superannuation Roundtable, the SuperStream Advisory Council, and the Corporations and Markets Advisory Committee (CAMAC), established to provide a source of independent advice to Treasury Ministers on issues that arise from time to time in corporations and financial markets law and practice.

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?

Establishing the Council of Superannuation Custodians

The Council could take the form of an advisory panel, convened to meet regularly, or it could be a statutory or corporate body, with functions and powers set out in legislation. Both models have advantages and disadvantages on a spectrum of regulation and cost.

There are a range of existing bodies that provide possible models for the Council.

- The Productivity Commission is statutory body that advises the Government on a range of economic, social and environmental issues affecting the welfare of Australians.
- The Housing Supply Council is an advisory body that provides advice to the Government on housing policy issues and produces an annual report on the state of the housing market. It meets regularly and has a budget to commission its own research.

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

Making a Submission

While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses sent via email in a Word or RTF format. An additional PDF version may also be submitted.

All information (including name and address details) contained in submissions will be made available to the public on the Treasury website unless you indicate that you would like all or part of your submission to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as such in a separate attachment.

Should you wish to make a submission, please send it by 21 June 2013 to supercharter@treasury.gov.au, or post to:

Treasury
Attention: Charter Group
Langton Crescent
PARKES ACT 2600

For enquiries, please call Michael Wellham (02) 6263 3043.