

Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

16 December 2016

Re: Superannuation (Objective) Bill 2016

Dear Sir or Madam,

Industry Super Australia's mission is to maximise the retirement incomes of industry super fund members, and to advocate for public policy and superannuation industry practice consistent with this goal.

We welcome the opportunity to comment on the Superannuation (Objective) Bill 2016 ('the Bill').

Summary

Seeking to enshrine the objective of superannuation in law as a means to evaluate the merits of competing proposals affecting our retirement income system is sound, but the primary objective for superannuation proposed in the Bill is fatally flawed. Further, the proposed secondary objectives do not include relevant factors such as the greater contribution that superannuation should play as a source of national savings and domestic productive investment. The rationale for these views is set out in [Appendix 1](#).¹

Among other reasons, the primary objective is flawed because it would not provide a basis for comparing and evaluating future superannuation policy proposals. For example, the proposed objective would provide no guidance in relation to competing proposals to increase – or to decrease – the Superannuation Guarantee: both proposals would be consistent with the proposed objective, because superannuation would continue to provide income in retirement to supplement or substitute the Age Pension. Eliminating all tax concessions, or increasing the tax concessions in superannuation, would both be consistent with the objective.

In addition, to be successful, the primary and secondary objectives should have broad support. This requires effort and consultation. The proposed objective before the Committee does not enjoy broad support. The superannuation sector has made clear to the Government that it rejects the proposed primary objective as misguided.

The Committee should reject the objective contained in the Bill and recommend to the Government that it undertake consultation on an objective that allows policy proposals, business conduct, and individual decisions to be evaluated consistent with the social policy objectives of the superannuation system.

¹ In this letter we focus our comments on the problems of the primary objective being proposed by the Government. We discuss problems with the proposed subsidiary objectives in pages 15-17 of Appendix 1.

ISA believes the following definition meets these criteria:

‘The objective of the superannuation system is to deliver financial security and dignity in retirement to all Australians by providing regular income that is, when combined with any public pension and other sources of income, sufficient to secure a comfortable standard of living by reasonable community standards.’

We elaborate our reasons for these views below.

Background

The present Bill has its origins in the recommendations made by the Financial System Inquiry (FSI) in 2014. We have argued since that to be effective any legislated objective needs to meet certain threshold qualities. These include:

- *Broad support* to ensure that the objective is not at risk of frequent changes. This is reflected in the FSI’s recommendation that the “government should seek broad agreement” on the objective.
- *Clarity* about the improvement to retirement living standards that superannuation should achieve. This will enable policy makers, industry and the community to:
 - Determine whether or not changes to policy settings or business conduct would help or hinder superannuation to achieve its objective, and
 - Assess the relative merits of different reform options.
- *Measurable* sought-for outcomes that enable policy proposals and business conduct to be compared.

Flawed process

The consultation initiated by Treasury in February 2016 received 100 submissions by the time it closed in April. Many of these submissions opposed the objective that is before the Committee. Criticism came from a diverse range of stakeholders, ranging from the Australian Bankers Association to the Australian Council of Social Service.

The superannuation industry uniformly opposed the objective before the Committee, as indicated in a joint letter to the Minister for Revenue & Financial Services from the Association of Superannuation Funds of Australia (ASFA), the Australian Institute of Superannuation Trustees (AIST), Industry Super Australia (ISA) and the SMSF Association issued in August 2016.

A copy of that letter is included as [Appendix 2](#).²

² We note that the account of the public consultation on the objective of superannuation contained in the Bill’s Explanatory Memorandum is limited to responses received by 6 April 2016 (see ‘Consultation on the objective of superannuation’, page 329 of the *Explanatory Memorandum*). The fact that the four largest peak bodies in the Australian superannuation industry subsequently proposed an agreed primary objective to the Government, when it appeared that the Government was not going to engage with industry concerns, has been omitted. The account in the Memorandum discusses the results of the consultation in only the most

The proposed objective before the Committee does not enjoy widespread confidence and support. It is the result of a superficial consultation process in which the Government has failed to secure the 'broad agreement' recommended by the Financial System Inquiry,³ and has not responded to the many criticisms contained in the 100 submissions received by Treasury. Regrettably the Minister has not engaged with or sought agreement on a proposed objective that enjoys broad industry and stakeholder support.

The Proposed Objective

A full discussion of why the proposed primary objective and secondary objectives are fatally flawed is contained in our response to Treasury's Discussion Paper ([Appendix 1](#)).

One obvious flaw is that the proposed objective in the Bill would not assist policy makers in evaluating major policy proposals. This can be demonstrated by considering whether the proposed objective would help inform consideration of any of the policy proposals advanced in recent years regarding superannuation.

For example, there has been considerable public debate about whether or not the rate of compulsory superannuation should be increased to 12 per cent and, if so, by when. Not increasing the SG rate, or increasing it over shorter or longer time periods, are all consistent with the Government's preferred objective: to provide income in retirement to substitute or supplement the Age Pension.

Similarly, reducing the Division 293 threshold to \$250,000, or even increasing it to \$350,000, are both consistent with the objective of providing income in retirement.

If the superannuation objective contained a clear adequacy target for the retirement income system (including superannuation), then the relative *efficiency* of competing proposals in the context of delivering that target could be measured.

The Explanatory Memorandum, in common with Treasury's Discussion Paper, does not provide the Committee or others with any examples of the proposed objective being applied to real (or even imaginary) policy issues.⁴

The Committee cannot have confidence in the proposed objective in the absence of a meaningful examples of application, and should demand them to be furnished, and made publicly available.

general terms, evading discussion of the substantive criticisms of the Government's favoured wording, and offering no rationale for the Government's decision to not formally respond to a consultation on an important matter of public policy.

³ The Final Report of the Financial System Inquiry (FSI) recommended that the 'government should seek broad agreement' (p. 65) on the proposed objective. Working to achieve broad agreement was necessary for two reasons. Firstly, the FSI had not consulted on the objective prior to making its recommendation. Secondly, broad agreement would be necessary to secure the confidence of the public and the industry, and to therefore render the objective resilient and effective.

⁴ We note that the Explanatory Memorandum does make the point that defining super for income purposes is intended to clarify that it is not primarily a vehicle for tax minimisation or estate management purposes. While we agree with this, superannuation exists to fulfil a positive and substantive set of social policy outcomes that should be reflected in the primary objective. Superannuation is not simply another savings vehicle whose primary significance to government is that it should not serve as a means for excessive tax avoidance.

This would allow the Committee and the public to understand and provide further meaningful analysis.

A Better Approach

The following definition of the primary objective for superannuation avoids the weaknesses evident in the definition proposed by the Bill:

‘The objective of the superannuation system is to deliver financial security and dignity in retirement to all Australians by providing regular income that is, when combined with any public pension and other sources of income, sufficient to secure a comfortable standard of living by reasonable community standards.’

This offers a clear and measurable objective consistent with the social policy origins and intent of superannuation. It locates superannuation as one of the three pillars of our retirement income system. It specifies a target living standard that is likely to have the broad support of the community, one that the industry and government can work toward achieving. Because this objective provides a clear picture of what a successful superannuation system would achieve, policymakers, regulators, industry and the community can determine if proposed policy or conduct is consistent with the objective and so worthy of support.

Conclusion

The Committee should reject the Bill in its present form and recommend consultation on a primary objective and secondary objectives that would achieve the stated purpose of this endeavour.

ISA is happy to provide any further information that the Committee may find useful. Please do not hesitate to contact [REDACTED] or me on [REDACTED] if ISA can be of further assistance.

Yours faithfully,

Zachary May
Director of Policy