



Australian Council of Social Service

23 December 2016

Chair,
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Hume,

Re: Superannuation (Objective) Bill 2016

Thank you for the opportunity to make this short submission regarding a legislative purpose for superannuation.

Earlier this year ACOSS prepared the attached submission to the Government's consultation on this issue, and attended a meeting for that purpose in Canberra. That submission is still relevant and we provide it to inform the work of your Committee.

We support the idea of a 'purpose for superannuation' to guide the Parliament and the Government as it develops legislation in this important area. More consensus over the purpose of superannuation would also help inform public discussion on the adequacy of retirement incomes and the role of compulsory saving and tax concessions to ensure this.

Regrettably, the goal of superannuation has become confused, with some viewing it (and associated tax subsidies) as a means to accumulate wealth or pass it on to adult children. Others view superannuation as an alternative to public funding of essential health and aged care services. We do not support these views: superannuation, along with the Age Pension, should ensure that everyone has a minimum adequate income in retirement.

The obvious difficulty is that views on how 'adequacy' should be understood and measured vary. The current Bill proposes that the purpose of superannuation is to:
'provide income in retirement to substitute or supplement the age pension.'

The proposed subsidiary objectives (for inclusion in regulations) are to:
'facilitate consumption smoothing over the course of an individual's life; manage risks in retirement; be invested in the best interests of superannuation fund members; alleviate fiscal pressures on Government from the retirement income system; and be simple, efficient and provide safeguards'.



We indicated in our previous submission that this was not the ideal definition of the purpose of superannuation. ACOSS proposed the following:

'The purpose of superannuation is to ensure that as many people as possible can attain an adequate income in retirement, higher than the Age Pension, through an acceptable level of compulsory saving, and fair and sustainable taxation support.'

We still believe this is a better formulation though we consider that, together with the subsidiary purposes and explanatory material, the proposed purpose would be an improvement on a status quo in which other goals such as wealth accumulation and estate management compete with the core goal of income adequacy in retirement.

We recommend that the Government continue to work with stakeholders, and involve the public, in discussions to reach a consensus on how an 'adequate income in retirement' should be defined for both superannuation and Age Pension policy purposes. Any attempt to reach agreement on a specific benchmark, such as the ASFA 'comfortable living standard', is bound to fail given the diversity of views; but it should be possible to reach broad agreement on a set of principles that clarify what 'adequacy' means for those purposes.

In our previous submission we proposed two principles that are worth repeating here.

First, we suggested that compulsory retirement saving through the Superannuation Guarantee should support a 'decent' living standard above pension levels that is 'worth saving for'. This is consistent with the idea of 'consumption smoothing' in the Government's proposed regulations.

We suggested that the 'target' living standard for this purpose should be higher than that which can generally be reached by people living on the maximum-rate pension but no greater than the average living standard of the vast majority of wage-earners and their families; since it would not be reasonable to force a large number of people to save to achieve in retirement a higher living standard than they already have in working life.

This should take account of the fact that a typical retiree household requires much less income to reach the same living standard as a typical working-age household, due to lower housing costs and the absence of dependent children.

Second, we suggested that superannuation tax concessions should support a retirement living standard that is generally considered 'worthy of public support'. This should be higher than the living standard reached by people living on the maximum-rate pension but no greater than that of a middle-income (median) taxpayer of working-age and their family.



The basis for this is that it would not be reasonable to expect a majority of working-age taxpayers to support a retirement living standard for others that is greater than their own.

The 'comfortable' living standard benchmark developed by ASFA falls into this category. This is more relevant to the top 20% of wage earners and retirees than to low or middle-income households. It includes, for example, overseas travel every five years and weekly restaurant meals with quality wines. This standard of living is beyond the reach of most people. We do not think it is reasonable to require low and middle income-earners to effectively pay more tax or forego services to cover the cost of tax concessions to assist a minority of people to reach this standard.

We hope this assists the Committee in reaching a conclusion in this complex and important area, and agree to the publication of this submission on the Committee's website.

Should the Committee require more information, I can be contacted at this office.

Yours sincerely,

Peter Davidson,
Senior Advisor,
On behalf of Dr Cassandra Goldie
Chief Executive Officer, ACOSS

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ACOSS supports a legislative purpose for superannuation. We believe this would help clarify the role of the superannuation guarantee and tax concessions for superannuation, and provide guidance for administrators of superannuation accounts.¹

Although it is now 25 years since the Superannuation Guarantee was introduced, there is much confusion over the goals of superannuation. Different people are using superannuation for different purposes, and advocating policy positions based on different, and often conflicting perceptions of the role of the superannuation guarantee and associated tax concessions.

The Financial System Review proposed the following legislative purpose:
'To provide income in retirement to substitute or supplement the Age Pension.'

While its emphasis on 'income in retirement' is welcome, this purpose has three weaknesses:

- (1) Full replacement of the Age Pension with superannuation should not be elevated to a policy goal. If this were achieved across the board, the resulting system would be highly inequitable and costly to government. For these reasons it is unlikely to happen in any event.
- (2) Supplementing the pension with superannuation for the majority of retirees makes more sense, but one implication of this is that the implied retirement income 'target' for superannuation is arbitrarily linked to the level of income where the pension cuts out completely. At almost \$50,000 for singles and over \$75,000 for couples, this would provide an relatively affluent living standard for a typical retired household living in owner-occupied housing. The vast majority of retirees live on much less.
- (3) It would be better to start with the underlying policy goal - adequacy of retirement incomes - and then turn to the contribution of each element of the retirement income system towards that goal.

Proposed purpose:

We propose that the following purpose and clarifying principles be inserted in relevant legislation:

'The purpose of superannuation is to ensure that as many people as possible can attain an adequate income in retirement, higher than the Age Pension, through an acceptable level of compulsory saving, and fair and sustainable taxation support.'

¹ For more information on our proposals for retirement income reform including superannuation, see http://www.acoss.org.au/wp-content/uploads/2015/08/ACOSS-submission-to-retirement-incomes-review_Tax-Talks-4_Final.pdf

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Clarifying principles

The following 'clarifying principles' are also proposed. These need not be incorporated into the primary legislation. They could, for example, be included in the Explanatory Memorandum for the relevant Bill or in regulations.

1. Superannuation should be seen as a core component of Australia's retirement income system, together with the Age Pension. A key outcome of superannuation with a clear objective will be to maximise the ability for people to achieve an adequate retirement income with less reliance on the Age Pension.
2. Superannuation may assist in meeting other objectives including strengthening national saving, and providing a pool of savings to enhance financial stability but these are subsidiary to the purpose outlined above.²
3. The development of benchmarks for the adequacy of retirement incomes requires careful modelling of pre and post retirement living standards and how these are distributed among different households, including between men and women.

This should be carried out as part of a thorough and open public review of retirement incomes with input from experts, stakeholders and the general community.

4. An 'adequate retirement income' has different meanings according to the different *purposes* of the four components of the retirement income system, as shown in the table below³:

² It is unrealistic to suggest that superannuation would one day replace the Age Pension under current or similar policy settings since a majority of retirees will receive at least a part pension well into the future. Further, it is doubtful whether the superannuation guarantee and tax concessions significantly reduce the overall budgetary cost of public support for retirement incomes since the cost of tax concessions largely offsets any pension savings. A more appropriate goal would be to ensure that the overall cost to the Budget of support for retirement incomes is sustainable (discussed below).

³ These retirement income 'pillars' are similar to the 'five tier' model advocated by the World Bank, excluding in kind support for retirement and social insurance.

http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept_Sept2008.pdf

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5. Proposed purpose of each tier of the retirement income system

Retirement income 'tier'	Purpose	Suggested adequacy benchmark
Age Pension	Prevent poverty	Living standard above poverty level
Compulsory superannuation	'Decent' retirement income 'worth saving for'	Living standard# between poverty level and (minimum) living standard of the vast majority of people of working age
Superannuation tax concessions	'Average' retirement income 'worthy of public support through the tax system'	Living standard# between poverty level and living standard of median (middle income) household of working age
Voluntary saving not supported by government *	Income replacement according to individual choice	No common standard, determined by each individual

Note that the same living standard can usually be obtained with a lower income after retirement, since the costs of children and housing costs are lower. These factors should be taken into account.

* Note that savings from non concessional contributions are still supported by government through the tax system to the extent that fund earnings and benefits are concessionally taxed.

(1) *The Age Pension and other income support payments including Newstart Allowance* should provide sufficient income (along with supplements such as Family Tax Benefit and Rent Assistance) to prevent poverty.

Since poverty is properly measured relative to community living standards, this implies that income support payments should be indexed to wage movements.

(2) *Compulsory retirement saving* (through the Superannuation Guarantee) should support a 'decent' living standard above pension levels that is 'worth saving for'.

This is the meaning of the reference in the proposed legislative purpose to an 'acceptable level of private saving', since the superannuation guarantee requires people to trade off a lower living standard in working life to improve their living standard in retirement.

This living standard 'target' should be set at an absolute level, rather than an income-replacement level.

This standard should be *higher* than the living standard that can typically be achieved by people living on the maximum-rate pension (otherwise there would be no point in compulsory saving), but *no greater* than the average living

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standard attained throughout working life by the vast majority of wage-earners, since it would not be reasonable to force a substantial number of people to save to achieve in retirement a higher living standard than they have in working life.

Since retirement living standards depend on more than people's incomes, when converting 'living standards' into benchmark incomes account should be taken of the typical costs of housing and children before and after retirement. For these two reasons a typical retiree household requires much less income to obtain the same living standard as a typical working-age household.

(3) *Superannuation tax concessions* should support an 'average' retirement living standard that is generally considered worthy of public support (since a tax concession for one taxpayer means that others must pay more to raise the same public revenue).⁴

In this case also, the living standard 'target' should be set at an absolute level, rather than an income-replacement level. This does not refer to 'average' in the statistical sense, but to indicate that it sits above a minimum level of adequacy but below what would generally be described as an 'affluent' or 'luxury' living standard⁵.

This standard should be *higher* than the living standard that can typically be achieved by people living on the maximum-rate pension (otherwise there would be no need for taxation support for retirement saving), but *no greater* than the living standard attained during working life by a middle-income (median) taxpayer, since it would not be reasonable to expect the majority of taxpayers of working age (at the median income level and below) to support a living standard in retirement for others that is greater than their own during working life.

⁴ We define 'tax concessions' against an income tax benchmark, under which wages, and returns to investment above inflation, are taxed at each individual's marginal rate. Some argue that an expenditure tax benchmark (under which investment income is not taxed) is more appropriate. However, exempting investment income from tax is unlikely to result in a higher overall higher level of saving. Lower tax rates for investment income mainly benefit individuals with high incomes, encouraging them to switch their savings to tax-preferred investments rather than increase their overall saving. In any event, the current superannuation system is closer to the income tax benchmark since benefit payments are not taxed, and it is unrealistic to expect that the system could be adjusted towards expenditure tax treatment. The real issues for debate are the degree to which income tax rates on superannuation savings are concessional, and who benefits from the concessions.

⁵ The 'comfortable' living standard benchmark developed by ASFA falls into this category. This living standard has greater relevance to the top 20% of wage earners and retirees rather than middle income households. It includes, for example, overseas travel every five years and weekly restaurant meals with quality wines. This standard of living is beyond the reach of most households. See Grattan Institute (2015), 'Super tax targeting.'

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Otherwise, the result would be a compulsory transfer of resources from the lower half of the income distribution to people with much higher living standards than themselves. This is what the present inequitable tax concessions do.

Again, since retirement living standards depend on more than people's incomes, when converting 'living standards' into incomes account should be taken of the typical costs of housing and children before and after retirement. For example, a typical family with children and a mortgage should not be expected to support a living standard for a retired household that is higher than their own.

Contributions attracting tax concessions should be capped at an absolute level that is consistent with this retirement income benchmark.

Tax concessions should also support compulsory saving for retirement since it would not be reasonable to require people to save for retirement without any public support through the tax system. This applies especially to people with low incomes who are unlikely to save in the absence of compulsion and for whom saving for retirement involves greater financial sacrifice.

(4) *Unsubsidised private saving* through voluntary contributions supports the living standard chosen by each individual.

The superannuation system should also facilitate a higher living standard than the above through voluntary saving, where an individual has the capacity and desire to do so (otherwise, individuals would not be allowed to save through superannuation above the level of saving that attracts tax concessions).

There would be no standard retirement income target for this purpose since it is a matter of individual choice.

However, the community should not be expected to support such choices through the tax system or other retirement income subsidies. This implies that 'non-concessional' as well as 'concessional' contributions should be capped, since once income is invested in superannuation investment income and benefits are taxed at lower rates than would otherwise apply.

6. 'Fairness' has two dimensions: that as far as possible everyone should receive the same tax concession per dollar invested in superannuation and that those with lower incomes who need more help to save for an adequate retirement income (and are most likely to rely on the pension otherwise) should receive

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more support.

While there is a tension between these goals, they both point towards a redistribution of the current concessions from high to low and middle income-earners. This tension can be partly resolved by capping the concessions, since caps are more likely to reduce concessions for high income earners.

7. 'Sustainability' refers to the fiscal cost of tax concessions, which based on the Tax Expenditure Statement's income tax benchmark is approximately equal to the annual cost of the Age Pension, and rising rapidly.

This leaves less room for expenditure on health and aged care services for an ageing population, which make a vital contribution to retirement living standards and security that is at least as important as an adequate income.⁶

Superannuation policy settings should not be based on an assumption that individuals should pay more for their health care from their own pockets, including from their superannuation benefits.

8. The purpose of superannuation is *not* wealth accumulation per se, or estate management.

Superannuation is only part of the mix of investment options available to people, and it has a particular purpose: to support retirement living standards.

This implies that the system should encourage or compel people to draw down their superannuation savings over the course of retirement, and that the use of superannuation to provide bequests (apart from transfers to support partners or dependent children) should be discouraged.

⁶ The World Bank's four tier retirement income model includes a health and care services tier for this reason. Currently less than one on five people over 64 years pays income tax, due in large part to tax concessions for superannuation including the non-taxation of fund earnings in the retirement phase. This is not sustainable if governments are to support decent health and aged care services.