



**Submission to the Senate Economics Legislation
Standing Committee**

Inquiry into Superannuation (Objective) Bill 2016

**Prepared by
COTA Australia**

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1. Introduction

Thank you for the opportunity to comment on the above Bill currently under consideration by your Committee. Superannuation law and regulations are of great interest and importance to COTA Australia's constituency of current and future older Australians.

COTA Australia is the national consumer peak body for older Australians. Its members are the State and Territory COTAs (Councils on the Ageing) in each of the eight States and Territories of Australia. The State and Territory COTAs have around 30,000 individual members and more than 1,000 seniors' organisation members, which jointly represent over 500,000 older Australians.

COTA Australia's focus is on national policy issues from the perspective of older people as citizens and consumers and we seek to promote, improve and protect the circumstances and wellbeing of older people in Australia. Information about, and the views of, our constituents and members are gathered through a wide variety of consultative and engagement mechanisms and processes.

2. Comment

COTA strongly welcomed the recommendation of the Financial Systems Inquiry (FSI) in 2014 that the objective of superannuation be confirmed in legislation. In that light, the Bill before your Committee represents an overdue but crucial improvement to the legislative framework underpinning the superannuation system.

COTA also welcomed and participated in the consultation processes on this issue undertaken first by the then Assistant Treasurer, Josh Frydenberg, in 2014 and later by the current Assistant Treasurer, Kelly O'Dwyer, in early 2016.

In our written submission to the consultation process in April 2016 (see: http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Consultations/2016/Objective%20of%20superannuation/Submissions/PDF/Councils_on_the_Ageing.ashx), we took the following position in regard to an objective for superannuation:

- a targeted statement of the purpose of the superannuation system would be easier to achieve in the context of an integrated review of the retirement incomes system;
- the establishment of an overarching objective for the entire retirement incomes system and rationale for government involvement in it would provide the foundation for specifying the respective roles and objectives of the different components of the whole – the Age Pension, compulsory superannuation and private savings. COTA's preferred statement of objective for the *retirement income system* as a whole was:
 - ***The retirement incomes system will deliver adequate income though all the years of retirement for all Australians on a fair and fiscally sustainable basis***

- Within this context the COTA-preferred primary objective for *superannuation* was:
 - ***To optimise income in retirement for as many people as possible through a system of compulsory, fair (or equitable) and fiscally sustainable government supported savings.***

Our April 2016 submission noted “that ‘adequacy’ needs to be defined in terms of a minimum level of income below which retirement income is inadequate, and clearly the Age Pension should be designed for that purpose”. In hindsight this proposed objective was deficient in referring only to compulsory superannuation, rather than to a system with both compulsory and voluntary components.

COTA has followed the stakeholder debate on this issue closely in the intervening period between expressing these views to the Treasury and the current Bill coming before the Parliament. We have noted the competing stakeholder views and interests expressed regarding the wording of the objective.

COTA’s own view has developed since April 2016 following discussion with a wide range of stakeholders and consideration of the debate.

COTA is now prepared to support the objective proposed by the Financial System Inquiry (FSI) and adopted by the Government, namely that the primary objective of superannuation should be to substitute or supplement the aged pension.

We note the consistency between the proposed Objective and the intentions of the Labor Government in 1992 when introducing the Superannuation Guarantee Levy, namely:

‘This Government sees the Age Pension not just as a security net for future retirees but as the keystone of its superannuation policies. It expects that most future retirees will continue to be eligible for the Age Pension (for example, through a part pension) which, with self-provided and tax-assisted superannuation, will allow a higher retirement income than is now generally available.’ (Australian Government 1992)

We note also comment in the Australia’s Future Tax System (Henry) Review’s interim Strategic Issues Report in 2009, that:

“By way of illustration, the Age Pension will contribute significantly to the retirement income of a person who has a 35 year work history commencing in 2000. Table 4.1 shows that the Age Pension (on current policy settings) will provide over half the retirement income of a person who earns up to the average income, even after the superannuation guarantee matures. The Age Pension will also provide nearly a quarter of the retirement income of people earning 2.5 times AWOTE — noting, however, this illustration assumes that the person has only superannuation guarantee savings and no other assets or income, which would be unusual for most on higher incomes.

<i>Income as a proportion of AWOTE^(a)</i>	<i>Proportion of retirement income from the Age Pension (per cent)</i>	<i>Proportion of maximum rate of the Age Pension received (per cent)</i>
0.75	62.7	94.5
1.00	54.0	88.8
1.50	40.0	76.5
2.50	23.5	55.2

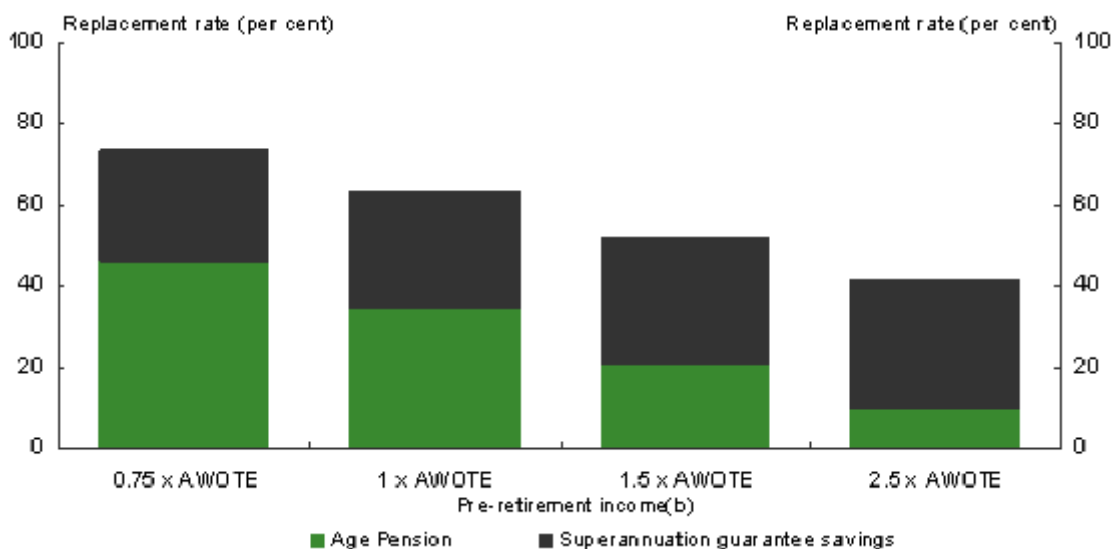
Table 4.1: Contribution of the Age Pension to retirement income after mature SG

a AWOTE is average weekly ordinary time earnings and is around \$1,150 per week (\$60,000 per year). Around half of workers earn less than three-quarters of AWOTE.

Source: Treasury projections.

Together with the Age Pension, the superannuation guarantee (when mature) may deliver replacement incomes for people on up to AWOTE of 60 per cent or more (Chart 4.1). Around half of this income will be provided by the Age Pension.

Chart 4.1: Illustrative projected replacement rates under the Age Pension and superannuation guarantee^(a)



These comments support the intention of the proposed wording of the Objective.

We also agree with the submission from Challenger Ltd to the April 2016 Treasury consultation in which they argue that the FSI proposed objective:

“1. Sets out the singular purpose of superannuation as providing retirement income. It gives guidance to policy makers to prioritise the provision of retirement income and highlights that participants in the superannuation

system cannot expect the superannuation system to support unlimited wealth creation and bequests.

2. *Provides policy makers with guidance for targeting superannuation tax concessions to supplement and replace the Age Pension, this will:*
 - *alleviate aged poverty;*
 - *assist in raising living standards in retirement up to a community standard which is both fair and fiscally sustainable; and*
 - *improve the fiscal sustainability of both the Age Pension and the superannuation system.*

As noted in the Explanatory Memorandum to the Bills:

2.13 This objective clarifies that the role of the superannuation system is to assist individuals to support themselves by providing income to meet their expenditure needs in retirement, rather than being a concessionally taxed investment vehicle for tax minimisation and estate planning.

2.14 Superannuation, through a combination of requiring compulsory employer superannuation guarantee contributions and allowing voluntary contributions, supports the other pillars of the retirement income system — the age pension and other savings. Its purpose is not to allow for tax minimisation or estate planning.

COTA has argued for years against the use of the superannuation system as a means of wealth accumulation through tax minimisation, and for estate planning. The Government's reforms this year to the superannuation system go some of the way to achieving this, but should and would have gone much further except for the state of our current representative political system.

COTA does not support the view advanced by some participants in the superannuation and financial service industry that the superannuation objective ought to specify a benchmark of either a replacement income proportion or a specific income level. We believe that underlying that position is the fear that the door will be left open for further tightening of tax concessions for people whose super balances go substantially beyond the level of the Age Pension.

COTA would in principle support further such tightening. There needs to be a case made for taxation concessions for superannuation that cost ordinary taxpayers who provide these more than the cost to them of providing those same people with a full age pension. People have every right to aspire to a retirement income significantly greater than the age pension – but the key question is to what degree should this be subsidised by taxpayers?

COTA supports the principle that preferential taxation of superannuation be targeted to those on lower and modest incomes who most need the support over a working life to be able to supplement the very modest, means-tested Age Pension in retirement. Preferential

tax treatments should also be available to higher income earners on the same equitable basis as for low and modest income earners.

We remain unconvinced that concepts such as a ‘comfortable standard of living in retirement’ should be included in the legislated objective of superannuation. Recall above, that earlier in the year we avoided benchmarks when we argued for the objective to be:

“To optimise income in retirement for as many people as possible...”

We note another comment from the Henry Review’s Strategic Issues Report that *“The superannuation guarantee has not been designed to achieve a particular retirement income benchmark.”*

A defined ‘comfortable’ income level for a retiree would imply significant levels of foregone revenue by government to fund tax concessions to achieve this outcome through the super system. Suggestions that the taxpayer funded superannuation system should enable people to save enough to maintain their standard of living in retirement are just not defensible above fairly modest levels of income, noting that the majority of people earn less than three quarters (0.75%) of average weekly ordinary time earnings (AWOTE).

While COTA is deeply committed to the social and economic goal of maximising comfort and dignity in retirement, questions of retirement income adequacy and standards of living need to be addressed in a broader context than the superannuation system alone. For example, there is a danger that government supporting something like “comfortable standards of living” for those able to achieve them through the superannuation system will result in fewer resources available for an adequate social safety net of income, health and aged care services for growing numbers of older Australians who will need to rely on it.

COTA does not accept a number of critiques of the proposed objective:

- The suggestion that the objective would be restricted only to the compulsory component of the system is not correct. The objective would be a test against policy related to both the compulsory and voluntary components insofar as they rely on legal compulsion and/or taxation concessions.
- The critique that the objective would not support self-provision for retirement income. For the vast bulk of income earners, it would do so if policy followed the objective. Beyond that we seem to be asking the majority of taxpayers to subsidise a minority of higher income earners aspirations to have an above average retirement income (to which we have no objection as an aspiration) at the expense of those who are not as well off as them (to which we do have an objection). ‘Self-provision’ that only materialises if it is offered a tax concession to do so is a contradiction in terms.
- Concern by some that the term “to substitute” is a threat to the age pension. We understand the origins of this concern in, for example, the threats to the pension contained in the report of the Abbott Government’s Commission of Audit Report and the proposals re pension indexation in the 2014 Federal Budget. However, we think that, to the contrary, the proposed objective actually enshrines the age pension as a cornerstone of retirement income policy. Challenger argues in its

submission to the April 2016 consultation that the objective “Integrates policy for the superannuation and Age Pension systems”. We think this overstates the case but it certainly links them. An independent Retirement Incomes Review, for which we have now argued for over three years, would hopefully achieve the integration to which Challenger and we aspire.

With regard to the proposed subsidiary objectives, namely 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;

COTA notes and agrees with the intention that these be prescribed by (disallowable) regulations, and we will comment when a draft of these is released for consultative input. We will have suggestions but not major substantive disagreement.

3. Conclusion

In the lamentable absence of an integrated Retirement Incomes Review (and the lost opportunity to craft a targeted objective for superannuation as an aligned component of an objective for the broader system of government support for retirement incomes), COTA Australia supports:

- enshrining the objective of the superannuation system in legislation; and
- adopting the wording contained in the Bill
 - ***The objective of the superannuation system is to provide income in retirement to substitute or supplement the Age Pension.***

COTA will continue to argue for an independent, multi-partisan supported, Retirement Incomes Policy Review that could be the basis for a non-party political platform for retirement incomes policy that will last us two or three decades into the future. Older Australians deserve that. Regrettably our current political parties are reluctant to honour them with such a commitment, preferring to use retirement incomes as a partisan political football in which retirees are cannon fodder.

We would be happy to appear before or provide further input to the Committee.

31 December 2016