

16 December 2016

Mr Mark Fitt
Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Mr Fitt

RE: Inquiry into the Superannuation (Objective) Bill 2016

BT Financial Group (BTFG) welcomes the opportunity to provide feedback on the provisions of the *Superannuation (Objective) Bill 2016* (the Bill), which introduces a defined objective of superannuation into legislation. The Bill establishes a legislative framework to guide the development of future superannuation policy, and is intended to serve as a guide to policy makers, regulators, industry and the community regarding superannuation's fundamental purpose.

BTFG applauds the Government's efforts to enshrine in law the primary objective of the superannuation system, and require new bills and regulations relating to superannuation to be accompanied by a statement of compatibility with the primary and subsidiary objectives (the latter of which will be prescribed in the regulations). We support the requirement that the statement of compatibility must be presented to the House of Parliament by the Member of Parliament who introduces the Bill, or another member acting on his or her behalf.

As stated in our submission to Treasury dated 6 April 2016, we believe a clear objective of the system will ensure superannuation policy settings are stabilised and subject to fewer changes, irrespective of the government of the day. Greater stability will in turn improve long-term confidence in, and the growth of, the superannuation system for the benefit all Australians.

However, the primary objective of superannuation needs to recognise that it will not be until nearly 2050 that the system will start to see the first retirees who have enjoyed a working lifetime of 9% or higher compulsory superannuation guarantee contributions.

The 2015 Intergenerational Report highlighted the challenges facing Australia's economy over the next four decades. Declining workforce participation, increasing longevity and a moderately increasing population present significant policy challenges for today's governments.

In light of these changing demographics, we believe the key challenges facing the superannuation system over the next 20 years are ensuring the system delivers on adequacy, equity and sustainability while accommodating the increasing life expectancy of the average Australian.

The Government's recently-passed package of superannuation reforms is an important step in ensuring the system is equitable and sustainable into the future. However, it is worth noting that some of the measures in the Government's package (eg. the introduction of the transfer balance cap, the reduction of both the concessional and non-concessional caps etc) will have an impact on the ability of a number of Australians to save for a comfortable income in retirement.

It is therefore critical that the primary objective of superannuation be expanded to include a reference to 'adequacy' and providing a dignified retirement to as many Australians as possible, to ensure that future reforms of the system do not unreasonably impact on the ability of future generations to achieve a comfortable lifestyle in retirement.

BTFG believes the measure of adequacy that will support a good quality of life and independent retirement for Australian retirees is one that is linked to pre-retirement salary. The report of the Senate Select Committee on Superannuation into Superannuation and standards of living in retirement (December 2002) recommended 60-65% of pre-retirement income as an appropriate target. We believe that 65% of pre-retirement income up to two times Average Weekly Ordinary Time Earnings (AWOTE) is an appropriate target, as it provides a link between pre and post retirement income, recognising that the Superannuation Guarantee is based on an individual's employment income. Limiting this target to twice AWOTE recognises that some households rely predominantly on one salary to fund their pre and post retirement income.

In our view, the primary objective proposed in the Bill (*'to provide income in retirement to substitute or supplement the age pension'*) is not consistent with a superannuation system that provides adequacy, equity, and sustainability. BTFG considers the objective should be broader than just substituting or supplementing the age pension. It should enable as many people as possible to enjoy a comfortable standard of living in retirement. The primary objective should also provide governments and policymakers with clarity and purpose to allow for future policies to be tested against the objective.

BTFG recommendation:

We recommend that the objective of the superannuation system be enshrined in legislation as soon as possible. However, in our view, the objective proposed in the Bill should be expanded as follows:

To provide Australians with an adequate replacement income in retirement that allows retirees to live a good quality of life with independence and remain an active consumer in the economy, ensuring the cost of retirement is equitable and sustainable for the government and future generations.

An adequate replacement income is 65% of an individual's pre-retirement income, including the age pension, up to a maximum of twice average weekly ordinary time earnings. This recognises that many households may need to rely on a single retiree's superannuation savings to support their retirement.

We would be pleased to discuss any element of our submission with the Committee.

Yours sincerely

Melinda Howes
General Manager, Superannuation
BT Financial Group