




Submission to the Treasury: Charter Group with respect to
the Discussion Paper: Charter of Superannuation Adequacy
and Sustainability and Council of Superannuation
Custodians

21 June 2013

A decorative graphic consisting of several overlapping, wavy blue lines that sweep across the lower half of the page from left to right.

The Association of Superannuation Funds of Australia Limited – ABN 29 002 786 290
ASFA Secretariat
PO Box 1485, Sydney NSW 2001
T 02 9264 9300 (1800 812 798 outside Sydney)
F 1300 926 484
W www.superannuation.asn.au

* * * *

About ASFA

ASFA is the peak policy, research and advocacy body for Australia's superannuation industry. It is a not-for-profit, sector-neutral, and non-party political national organisation whose aim is to advance effective retirement outcomes for members of funds through research, advocacy and the development of policy and industry best practice.


ASFA's focus is on whole of system issues and its core strategies are aimed at encouraging industry best practice, advocating for a system that plays a productive role in the Australian economy and ensuring the industry delivers on its primary purpose of delivering decent retirement incomes.

Our membership - which includes superannuation funds from the corporate, industry, retail and public sectors, and, through its service provider membership, self-managed and small APRA funds - represents over 90 per cent of Australians with superannuation.

* * * *

Should you have any queries regarding the contents of this submission, please do not hesitate to contact me on (02) 8079 - 0805 or 0433 169 342 or pvamos@superannuation.asn.au.

Yours sincerely

A handwritten signature in black ink that reads "Pauline B Vamos". The signature is written in a cursive style with a large, stylized 'B'.

Pauline Vamos
Chief Executive Officer

1. OVERALL COMMENTS

ASFA supports the need for long-term thinking and certainty with respect to superannuation policy. This in turn will promote community confidence in superannuation.

We agree that the stated principles of certainty, adequacy, fairness and sustainability are important, as the discussion paper indicates.

ASFA has been active in past policy and research work in identifying core objectives, values and principles of the Australian superannuation system. This culminated in the preparation of the *ASFA White Paper, Super System Evolution: achieving consensus through a shared vision*, which is attached for your reference (*ASFA White Paper*).

We agree that the overall goal of superannuation should be to ensure that we have a system which provides secure and adequate income which will support a dignified retirement. The *ASFA White Paper* sets out a series of proposals for the future design of the system.

ASFA also is supportive of an independent and robust institutional framework which delivers a system which best meets the agreed objectives.

It should be noted, however, that the industry has had an enormous amount of regulatory reform to analyse and implement over the past few months, with not all of the legislation yet finalised. As a result of this, the industry has not had time to fully consider the questions raised in the Discussion Paper or to assess the issues with respect to establishing a Council.

The Discussion Paper raises issues which need to be considered and which are too important to be rushed. While we have provided comments on the core principles, it is too soon to have formed a considered opinion on the proposal to establish a Council and we have not provided comments with respect to this.

2. CHARTER OF SUPERANNUATION ADEQUACY AND SUSTAINABILITY **Core Principles Underpinning the Charter**

It is proposed that the Charter is to be developed against the core principles of certainty, adequacy, fairness and sustainability.

Question 1: What is your view of the core principles outlined above?

ASFA supports the core principles outlined above.

Question 2: Are there any additional principles that are important in setting retirement income policy?

Possible additional principles include: -

- simplicity;
- efficiency; and
- flexibility.

Simplicity is an aspect which could be a separate principle or could be included in the principles of certainty and/or of sustainability. Simplicity should mean striving to achieve genuine simplicity in design and administration, while having regard to matters of equity.

Efficiency would ideally be a separate principle but could be coupled with the principle of sustainability.

While certainty with respect to the core design is necessary, it should be flexible enough so that it can be adjusted as demographics, society and the economy changes.

Question 3: What safeguards can be placed on changes in the superannuation system to promote certainty?

The main safeguards would be for changes to be made based on the results of research and after careful analysis and consideration of the underlying policy rationale and likely outcomes and consequences, prior to any changes being made. Policy changes designed primarily to generate additional tax revenue should be avoided.

Where it is possible to do so there should be extensive community and industry consultation on any proposed changes. This includes formal and informal consultation and review processes performed by Treasury and inquiries conducted by Parliamentary Committees, other statutory bodies such as the Productivity Commission or by less formal bodies.

Certainty can be provided in appropriate cases by the use of mechanisms such as transition periods before changes become effective, including the use of “stepped” or “staged” transitions (such as that employed for the changes in preservation age and age pension age) and the “grandfathering” of provisions, subject to a sunset clause.

Question 4: How should the Charter reflect procedural fairness, including providing adequate notice of future changes and an open and transparent consultation process?

While open and transparent consultation may not always be achievable in the context of changes to taxation, it should be mandatory where it is at all possible. Consultation periods should be of sufficient duration to enable adequate analysis and assessment of the proposed changes and an “outcome of consultation” document should be produced. There have been a number of instances over recent months where little, or sometimes no, notice has been provided of proposed changes and where the consultation processes have been of a very brief duration and/or limited in scope.

If changes are beneficial to members there generally will be less need for notice to be provided to members of the change, however, if they are detrimental then the notice period should be commensurate with degree of detriment and take into consideration the extent to which members may need to plan or to adjust to the change. The need for an open and transparent consultation process, of appropriate duration, is also greater in such cases.

Adequacy

The purpose of having a retirement incomes policy is to endeavour to ensure that as many people as reasonably possible have an adequate income in retirement. A good retirement incomes policy will seek, within reason, to maximise the amount people have in retirement, having regard to matters of equity and sustainability.

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

The retirement income system should be geared to provide, in conjunction with the Age Pension, income which is sufficient for a retiree to live in dignity and which will last for most, if not all, of the person’s retirement.

The Age Pension is designed to alleviate poverty in retirement, provide protection against the financial consequences of longevity and to provide a base for the retirement income of Australians.

For an average wage earner the goal should be that superannuation savings, together with a part Age Pension, should be sufficient to fund a lifestyle equivalent to the *ASFA Retirement Standard* at the comfortable level. This equates to an income of \$41,169 a year for a single person and \$56,317 a year for a couple, as at March 2013.

On the other hand, for those on above average incomes a replacement rate in retirement of around 65 per cent may be appropriate. This is a common benchmark used both in Australia and overseas.

The retirement income system also needs to cope with improvements in longevity. The superannuation system was originally designed largely for people who lived into their seventies - it needs to be redesigned for people now living into their nineties.

A copy of the current *ASFA Retirement Standard* is attached for your reference.

Fairness

Fairness has two aspects – intra-generational equity and inter-generational equity.

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?

Regard should be had to matters of intra-generational and inter-generational equity.

Ideally an objective methodology should be established by which the appropriateness of the cost of tax concessions and social security benefits could be measured and assessed. This would take into account the cost of the age pension and ideally the cost/benefit of other entitlements and assistance, such as the pharmaceutical benefits card and access to reductions in the amounts paid for goods and services such as rates, utilities and public transport fares.

The effects on behaviour of the availability of government and other assistance should also be considered.

Question 7: What limits could be placed on government assistance and how should this be measured?

Given the concessional tax treatment of superannuation, there should be a notional cap on the amount of tax assistance for superannuation provided to individuals.

Sustainability

Any retirement incomes policy must, by necessity, have regard to demographics and, in particular, the declining taxpayer/aged person ratios - not only by minimising future aged pension payments but also by having regard to the general tax burden to be faced by future employed taxpayers.

As concessional tax treatment represents a significant cost to the revenue, which is borne by taxpayers, it is critical that regard be had to both the benefits/outcomes achieved, in light of policy objectives, and to considerations of equity. As it has received the benefit of concessional tax treatment, reasonable limits as to the amount of retirement benefit/income which benefits from concessional tax treatment should be imposed.

Bearing in mind that the tax concessions for superannuation should be affordable, in ASFA's view superannuation, together with the Age Pension, should aim to result in, say, 80 per cent of all Australians being able to fund a substantial part of their retirement needs without undue reliance on the Age Pension. This will mean that Age Pension payments at the full rate can continue to be made to the minority who need them.

Many countries cap the amount of tax assistance provided to private savings for retirement through limits on tax assisted annual contributions and/or the amount of final retirement savings. Australia has moved from reliance on a cap on final retirement savings (the Reasonable Benefit Limits) to caps on both concessional and non-concessional contributions.

While this may deliver additional tax revenue to the Government, the caps on annual contributions do not allow individuals with low balances, due to factors such as broken working patterns because of carer responsibilities or study, to "catch up" with their retirement savings when they have the financial capacity to do so. Similarly, they do not address the circumstances of individuals who achieved an account balance in the tens of millions of dollars prior to the contribution caps coming into force.

Accordingly, the ASFA proposal is as follows:

- there should be caps on both concessional and non-concessional contributions which should be administered over a member's lifetime, rather than on an annual basis, in order to accommodate the fact that individuals generally will have markedly different capacities to make contributions in particular years of their working life;
- if contribution caps are to continue to be applied on an annual basis, they should be set at levels which allow individuals to accrue a reasonable level of savings for retirement, recognising that generally individuals will make contributions below the caps in most years;
- provisions should also allow individuals with low balances to catch up when they have the financial capacity to do so.

There should also be measures in place which mitigate the risk of concessional tax superannuation being used for estate-planning purposes, as opposed to funding income in retirement.

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

The main costs of the superannuation system are the public cost of the concessional tax treatment of superannuation and its impact on the revenue and the private and public costs of implementation and compliance. In this context, given the propensity to raise levies on the industry, most of the public costs of implementation and compliance are in fact funded privately.

Benefits of superannuation include:

- the improvement in retirement incomes of Australians;
- the provision of insurance cover for death and disability;
- the reduction in the aggregate amount of Age Pension that has to be financed by the government; and
- the economic and investment benefits which are derived from having a national savings pool.

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?

Balancing administrative simplicity will need to be done on a case by case basis. While, on balance, considerations of fairness and sustainability should probably prevail, this is not to say that policy makers should not strive to design measures to be as simple as possible, even if this does mean trading off some considerations of equity or sustainability “at the edges”. Ideally a number of options as to how a measure is to be implemented should be developed and the consultation process not only should allow sufficient time for the options to be considered but should also be open to the development of further options.

It should also be noted in this context that simplicity has a role to play both in

- certainty - in that consumers are certain as to what rules apply to them and how they apply; and
- efficiency - as simpler design of regulatory obligations means it is easier, and cheaper, for superannuation providers to identify, scope and specify requirements; implement systems, processes and procedures; monitor and report on compliance and manage risk.

Superannuation and Retirement Incomes

The three-pillar policy – safety net of the age pension; mandatory Superannuation Guarantee contributions and provision of tax incentives, such as the concessional tax treatment of superannuation, to encourage voluntary savings – should remain in place.

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.**

The trade-offs between the various principles needs to be recognised but these trade-offs can only be performed on a case by case basis.

It is important that the interactions between the retirement income system, the tax regime and the social security system should always be taken into consideration, from a cost\benefit and behavioural perspective.

It is critical as a matter of equity that intergenerational costs and benefit are taken into account. Superannuation is a long term policy measure and a longitudinal approach must be adopted.

Australia’s Economy

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

The impact of superannuation changes on the pool of national savings, investment behaviour and the economy should be taken into account alongside considerations of the impact of changes on the effectiveness of retirement incomes policy.

ASFA has commissioned research with respect to the effect of superannuation investment on the economy (*Maximising Superannuation Capital*, dated June 2013) and a copy of this report is attached for your reference.

Implementation of the Charter

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

ASFA considers that this question can only be answered after a charter has been settled.

3. COUNCIL OF SUPERANNUATION CUSTODIANS

As per our overall comments at the beginning of this paper, it is too early, and there has been too much regulatory reform being implemented over the last few months, for ASFA to have formed a considered opinion on the proposal to establish a Council. As such, we have not provided comments on the issues raised in the Discussion Paper with respect to the proposed formation of the Council.

+++++