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Dear Brian,

### **Legislating the objective of superannuation**

AustralianSuper welcomes the opportunity to contribute to the consultation on the exposure draft bills for legislating the objective of superannuation, namely the *Superannuation (Objective) Bill 2023* and *Superannuation (Objective) (Consequential and Transitional Provisions) Bill 2023*, and associated explanatory materials.

#### **Executive Summary**

We favour an objective that is simple and focused on what superannuation funds are designed to do – to help members achieve their best financial position in retirement. Legislating the objective of superannuation is an important reference point for the operation and evolution of Australia's world leading retirement income system. It is also long overdue.

The draft of the objective has not changed from the discussion paper in February 2023 so, consistent with AustralianSuper's previous submission, we continue to support the proposed objective. That is:

*'to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.'*

We would welcome its passage as soon as possible. We support the detail in the proposed explanatory materials and the requirement for statements of compatibility for any proposed changes to superannuation.

#### **Background**

AustralianSuper is Australia's largest superannuation fund and is run only to benefit members. Over 3.2 million Australians are members of AustralianSuper with over \$300bn in member assets under management. We are the custodians of the retirement savings of one in eight working Australians.

AustralianSuper uses its size and scale to provide the best possible retirement outcomes for members and in doing so, we are cognisant of acting in our members' best financial interests. Our ambition at AustralianSuper is to be the leading fund in the world's best system for members. Our vision is that all Australians live well in retirement.

Compulsory superannuation in Australia was introduced over 30 years ago and has been a success story, creating a pool of \$3.4 trillion in savings that provide benefits to members, the economy and society. However, the absence of an objective for the system has been described as "*navigating the super landscape without a*

*compass*.”<sup>1</sup> It has also contributed to short-term policy making, undermined long-term confidence in the system and imposed unnecessary costs on superannuation funds and their members.<sup>2</sup>

The recent Intergenerational Report<sup>3</sup> (IGR) highlighted that Australia’s superannuation system will support the living standards of future generations in retirement while also lowering the cost of the Age Pension.

Superannuation will be a significant contributor towards intergenerational fairness, ensuring younger people do not experience higher tax obligations to fund increasing expenditure on the Age Pension. When the first IGR was published in 2002, expenditure on the Age Pension was projected to reach 4.6 per cent of GDP by 2041-42. This is now expected to drop to 2 per cent of GDP by 2062-63 which will make a substantial contribution to the viability and sustainability of our retirement income system.

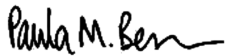
Superannuation is members’ money. While there are significant economic benefits to the nation in the pool of capital that superannuation reflects, superannuation members must have confidence that their money will be invested appropriately to deliver them their best possible financial position in retirement.

We strongly believe an objective should be settled and legislated once and for all to provide long-term stability and certainty for our superannuation system.

Comments regarding the objective, the draft bills and the explanatory materials are attached.

We would be pleased to provide additional information or to discuss this submission in further detail. If that would be of assistance, please contact Nick Coates, Head of Government Relations and Public Policy ([ncoates@australiansuper.com](mailto:ncoates@australiansuper.com)).

Regards



Paula Benson AM

Chief Officer, Strategy & Corporate Affairs

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<sup>1</sup> The Hon Dr Jim Chalmers MP - Treasurer- 20 February 2023 - Address to Conexus Institute -

<https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/address-conexus-sydney>

<sup>2</sup> Financial System Inquiry Final Report 2014 (page 96) - <https://treasury.gov.au/publication/c2014-fsi-final-report>

<sup>3</sup> <https://treasury.gov.au/publication/2023-intergenerational-report>

## Attachment: Comments

*“The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.”*

AustralianSuper strongly supports the proposed Objective of Superannuation (Objective) and the important principles it embodies. We believe this provides an important opportunity to achieve policy and regulatory stability for the superannuation system going forward. The wording articulates the important principles and foundations of superannuation and should be enshrined in legislation as soon as possible.

### The Bill and Explanatory Memorandum

Whilst acknowledging that a legislated Objective could be changed by any future Parliament, the complete absence of an objective has been detrimental to the confidence of, and outcomes for, superannuation fund members. If there is no clarity of purpose, there is a risk that superannuation, retirement policy and regulatory architecture cannot be aligned and therefore, cannot deliver the best outcomes for members and associated benefits for the economy and society.

Containing the Objective in a separate Act is a prudent and logical approach given the intent of the *Superannuation (Objective) Bill 2023* (Objective Bill).

As described in the explanatory memorandum to the Objective Bill, the intent is to require policy-makers to demonstrate how any future changes to superannuation law are consistent with the Objective (with such assessment to be documented in a ‘*statement of compatibility with the objective*’ included in the explanatory materials accompanying future Commonwealth Bills and regulations relating to superannuation, unless an exception applies).

We welcome the clear statements that the Objective is not intended to:

- change the operation or interpretation of existing superannuation law, prudential standards or governing rules of superannuation entities;
- impact regulatory supervision activities;
- guide the regulation of trustee’s conduct; or
- change existing trustee obligations.

AustralianSuper supports the proposed statements of compatibility as the accountability mechanism to ensure alignment of future legislation with the Objective. This is consistent with existing parliamentary processes and will provide an appropriate mechanism for ensuring any proposed legislation is compatible with the Objective. In turn, this will help to achieve long-term stability in superannuation policy settings as well as promoting trust and confidence in the system.

Policy making in the superannuation system is complex; consequently, the exact content and form of the statement may change depending on the nature of the amendments being considered. We believe that a degree of discretion and judgement by the Parliamentarian introducing the legislation is reasonable.

We welcome the acknowledgement of the importance of group insurance within the superannuation system and its consistency with the Objective.<sup>4</sup> AustralianSuper believes that access to affordable group insurance provides a valuable safety net and protection for the community at a reasonable cost. Insurance can help to

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<sup>4</sup> EM para 1.27.

achieve a dignified retirement for a member in circumstances of incapacity or provide their dependents with essential benefits in the event of their death.

## Components of the Objective

### *'Preserve savings to deliver income'*

We continue to endorse the clear unambiguous statement that the super system should *'preserve savings to deliver income'*. This is significant and underlines the fundamental nature of superannuation as a concessional tax, long-term savings vehicle for retirement.

The principle of preservation - that people must forgo current consumption and compulsorily save for their retirement - is paramount. In return for forgone current consumption, super is taxed at a generous concessional rate. Preservation helps people to save for the length of their working lives. This also affords superannuation funds the benefit of stable long-term member inflows that can be deployed in a concessional tax environment and invested for the long term.

A long-term investment horizon underpinned by preservation allows superannuation funds to allocate capital to opportunities that create long term value and to build and leverage pooled scale and investment capability to enable members to achieve their best financial position in retirement.<sup>5</sup>

There remains a role for exceptions from the preservation rule, but this is limited to incapacity and financial hardship. The current settings are appropriate and allow for the early release of benefits where a member is incapacitated, or on compassionate grounds and severe financial hardship grounds when no other support mechanisms are available.<sup>6</sup>

We support the clear articulation that savings should be drawn down to provide individuals with a source of income during their retirement. We note the non-prescriptive nature of the Objective in this regard and that individuals may choose to receive this income *"as a lump sum from which they can draw income from directly, or choose other financial products which are designed to ultimately provide an income stream during retirement."*<sup>7</sup>

### *'For a dignified retirement'*

Australia's retirement income system has three pillars - a means tested Age Pension, compulsory superannuation and voluntary savings. A dignified retirement signals an important aspect of the interaction between pillar one and pillar two of our system. It supports delivery of retirement income above the Age Pension and places emphasis on economic and social participation in retirement.

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<sup>5</sup> EM para 1.29.

<sup>6</sup> We note there is an extensive body of research demonstrating that widespread and systematic early access for other purposes generally leaves retirees worse off and is not economically beneficial. See Steven Hamilton, Geoffrey Liu and Tristram Sainsbury, *"Early pension withdrawal as stimulus"* (February 2023); Grattan Institute *"Housing affordability is a problem, but superannuation isn't the solution"* (April 2021); the McKell Institute *"COVID-19: 9 reasons why accessing super early is a risky idea"* (March 2020) and Industry Super Australia, *"Super Bad – Why Super for a House Will Hurt First Home Buyers"* (February 2021).

<sup>7</sup> EM para 1.34.

### *‘Alongside government support’*

Importantly, the proposed Objective also acknowledges that super operates *‘alongside government support’*. This reinforces that superannuation is not designed to replace the Age Pension, but instead supplement it. This recognises that, along with compulsory superannuation and voluntary savings, a means tested Age Pension is one of the three pillars of Australia’s retirement system.

### *‘Equitable’*

Despite the success of the superannuation system, it is still not super for everyone. Women aged from 60 to 64 have an average super balance of \$246,885 compared to men who have an average super balance of \$322,184.<sup>8</sup> This means women in this cohort have around 23% less super than men.

Women, First Nations Australians and those on lower income (including younger workers) need further support through the superannuation system. The equity objective focuses on reforms required to ensure the system is working for everyone equally.

For example, ensuring access to the concessionally taxed environment, particularly for lower superannuation balances, needs to be an area of focus. The explanatory memorandum states that equitable is intended to deliver *‘similar outcomes to people in similar situations and targets support in the superannuation system to those most in need.’*<sup>9</sup>

We submit there are two reforms which would be consistent with the Objective that could immediately help to improve equity in the system, namely:

- paying superannuation on Commonwealth paid parental leave;
- increasing the Low-Income Superannuation Tax Offset (LISTO), which has not been adjusted to match changes to tax brackets and increases to the superannuation guarantee since its introduction (replacing the Low Income Superannuation Contribution) in 2017.

These proposals would promote gender equity in the superannuation system, and better support the superannuation savings of low-income earners. They would give both women and low-income earners a more equitable share of superannuation tax concessions and improve their retirement outcomes.<sup>10</sup>

### *‘Sustainable’*

Including sustainability in the objective is important and relates to government support for members in the superannuation system. The superannuation system must be delivered in a way that can be sustained for generations to come. Sustainability includes the sustainability of the long-term budgetary impact, the

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<sup>8</sup> Ages 60 – 64, Deloitte Average Balances to 30 June 2022, rounded to the nearest \$100. People with zero superannuation are not included in average data.

<sup>9</sup> EM para 1.47

<sup>10</sup> We note these policy positions are widely supported by peak bodies such as Women In Super, ISA and AIST.

See <https://www.womeninsuper.com.au/content/policy-and-advocacy-priorities/gjunrk> ,  
<https://www.industrysuper.com/assets/FileDownloadCTA/ISA-Policy-Priorities-June-2022.pdf>  
[https://www.aist.asn.au/getattachment/Media-and-News/News/2022/AIST-Submission-AIST-2022-2023-Pre-Budget-Submissi/2022-01-27-AIST-submission-Pre-Budget-2022-23-Clean\\_final.pdf.aspx](https://www.aist.asn.au/getattachment/Media-and-News/News/2022/AIST-Submission-AIST-2022-2023-Pre-Budget-Submissi/2022-01-27-AIST-submission-Pre-Budget-2022-23-Clean_final.pdf.aspx)

sustainability of the retirement income system, and the sustainability of outcomes for members. The cost of the system must be offset and weighed against the advantages of the system.

We cannot perpetuate an approach that expects the next generation of workers to be unreasonably burdened by supporting today's retirees. We have an ageing population and the latest government projections show the proportion of the population aged 65 and will increase from 16.8% (2020-21) to 23% in 2060-61.<sup>11</sup> Eventually, this means fewer people of working age relative to those aged over 65.

Including *sustainable* in the Objective will ensure these demographic trends, along with the long-term budget implications of any changes to superannuation, are considered when changes are proposed. This will help to ensure the long-term viability of the system and ultimately the sustainability of outcomes for members.

## **Conclusion**

AustralianSuper commends the proposed wording for the Objective of Superannuation and endorses the important principles it embodies. The Objective will be an important reference point for the ongoing improvement of Australia's world leading retirement income system. We believe it should be legislated as soon as possible.

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<sup>11</sup> Intergenerational Report 2021; Population Statement 2023.