



**23 December 2016**

Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

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### **Objective of Superannuation**

The Financial Services Council (FSC) welcomes the Senate Economics Legislation Committee's inquiry into the Superannuation (Objective) Bill 2016 (the Bill). The FSC supports the Bill's overarching purpose, to enshrine the objective of superannuation and welcomes the consultative approach taken by the Government as it has implemented the Financial System Inquiry (FSI) recommendation.

The FSC notes that the Bill is the product of consultation between the FSI and industry, followed by Government consultation on the FSI's recommendations, and now scrutiny through the Senate.

The FSC supports enacting a clear and concise statement of the objective of superannuation. The FSC is of the view that a clear statement should not require the support of subsidiary objectives, however, the FSC supports the regulations providing context to assist interpretation of the objective.

The FSC does not support the proposed objective in the Bill as it emphasises whether or not a superannuation consumer is reliant on the age pension. The FSC submits that the objective should reflect the fact that most consumers aim save for an adequate level of income in retirement based on their personal circumstances, rather than to become less reliant on the age pension.

The FSC supports the objective being enshrined in stand-alone legislation, rather than in existing law, as it provides a reference point for all future changes to superannuation, tax or social security policy.

Finally, the FSC supports a requirement for a statement of computability to be made in relation to future bills that relate to the superannuation system so as to ensure that the prescribed objective may have an influence on future superannuation reforms.

Please contact me with any questions in relation to this submission on [REDACTED].

Yours sincerely,

[REDACTED]

Blake Briggs  
Senior Policy Manager

## 1. OBJECTIVE OF SUPERANNUATION

### Adequacy, rather than age pension reliance

The FSC is concerned that the objective of superannuation proposed in the Bill does not reflect the fact that superannuation consumers aim to save for an adequate retirement based on their personal circumstances.

Defining the objective of the system so as “to provide income in retirement to substitute or supplement the age pension” inappropriately distils the system down to its interaction with age pension eligibility.

The FSC proposes the following alternate objective of superannuation:

*To deliver dignity and independence for all Australians in retirement by providing replacement income that is adequate to provide a comfortable standard of living.*

This proposed objective is orientated towards the outcome the system is designed to achieve – consumers’ aspiration to save for adequate retirement incomes.

### Interpreting the proposed objective

The FSC supports a short, concise explanation of the objective of superannuation and is of the view that supplementary objectives are not necessary.

Consistent with our recommendation that the objective of superannuation should be enshrined in a stand-alone bill, however, the FSC envisages the explanatory memorandum to the Bill providing context on the meaning of the principle objective. This will assist the objective remain enduring and relevant, but not have the same force as subsidiary objectives.

The FSC outlines below factors that should feature in the explanatory memorandum to allow future governments and stakeholders interpret the objective.

#### *a) Adequate and comfortable*

The FSC supports the objective recognising a direct link between wage replacement during retirement and an individual’s pre-retirement income. This will ensure the system also retains a meaningful connection to wages growth and provides for an adequate income, rather than simply act as a safety net.

The FSC is of the view the objective of the superannuation system should be aspirational and that adequate replacement income must reflect reasonable community standards.

The FSC defines adequate as 65 per cent of an individual’s pre-retirement income, including the age pension, up to twice average weekly ordinary time earnings. Comfortable is therefore a measure of comfort relative to the individual who was contributing to the system, not a single global figure.

The FSC’s measure of adequacy is consistent with previous recommendations of the Senate Select Committee inquiry into superannuation and living standards in retirement. The FSC also submits that the objective should recognise that many households may need to rely on a single retiree’s superannuation savings to support the retirement of a couple and the impact that permanent disablement or the premature death of one member of a couple may have on superannuation savings.

*b) Dignity and independence*

Whilst the age pension will remain an important safety net for retirees and likely continue to form part of the retirement income of a majority of Australians for the medium term, the FSC is of the view that the superannuation system should be aspiring to ensure as many people as possible achieve an adequate and self-funded retirement.

The superannuation system should also assist retirees manage other costs that arise in retirement, such as aged care and health costs, as well as the cost of securing adequate insurance coverage, and not be limited to only replacing the cost of the age pension to the Commonwealth.

Community expectations are for a dignified retirement with superannuation income that supplements or replaces the age pension safety net. The FSC is strongly of the view that the objective of the superannuation should not, in any manner, limit or discourage retirement savings that are in excess of what is necessary to end age pension reliance.

## **2. ENSHRINEMENT**

The FSC supports enshrining the objective of superannuation in stand-alone legislation.

There are practical difficulties arising from the alternative (enshrinement in existing superannuation legislation), including:

1. The numerous superannuation, social security and tax laws across which the 'superannuation system' is built; and
2. The potential impact of enshrinement on traditional approaches to statutory interpretation, including its possible interaction with the sole purpose test.

It is important that the objective should not address, or impact upon, the currently legislated best interest duty provided for in the *Superannuation Industry Supervision Act 1993*. The best interest duty is already enshrined in law and its meaning is established and well understood for superannuation trustees.

The FSC also supports the stand-alone legislation placing an obligation on the relevant Minister to make a 'statement of compatibility' with the objective of the system when legislation is introduced that impacts on the superannuation system.

It is appropriate that the Bill does not prescribe what information is necessary for a statement of compatibility, but leave this for the Minister to determine. This places the onus on external stakeholders to assess the robustness of a statement of compatibility and publicly hold the Government to account for unpersuasive statements.

The FSC would also support a periodic review of the superannuation system against the objective with a view towards ensuring stability and certainty in the policy settings between reviews. The FSC envisages this would appropriately be integrated with the five-yearly intergenerational report.