

ACTU SUBMISSION: Objective of Superannuation

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INTRODUCTION

The ACTU has been an important and influential participant in the development of the occupational superannuation framework which is the cornerstone of Australia's current superannuation framework. The ACTU through the Accord processes 30 years ago developed and played a major role in bringing about a framework to provide for occupational superannuation. In support of the ACTU's public policy goals, the ACTU has maintained support for the superannuation system as it has evolved over the past 30 years.

The ACTU and its affiliates remain active participants in the system. The ACTU and its affiliates have shared carriage of the maintenance of the award system upon which occupational superannuation still substantially relies. The ACTU and its affiliates also jointly sponsor, on a not for profit basis, a significant number of industry superannuation funds including some of the largest all profits to members superannuation funds in the country. The ACTU and its affiliates nominate Trustee Directors to these funds.

THE ACTU'S PROPOSED OBJECTIVE

The ACTU supports the proposition that there should be a simple, primary objective for superannuation together with a statement of principle to reinforce that there are a number of factors which support and facilitate the primary objective.

The ACTU's belief is that the primary objective should be an objective of the superannuation system and should be the following:-

“Superannuation, together with an adequate Aged Pension, should provide for an Australian worker to maintain his or her standard of living when he or she retires from the paid workforce or reaches the national retirement age”.

The ACTU believes that the following factors are the essential features which are needed to facilitate this objective:-

- 1. Adequate funding of the superannuation system as part of the worker's remuneration during their time in the paid workforce or equivalent service in the unpaid workforce.**
- 2. The designation of appropriate funds into which occupational superannuation should be paid and from which retirement income is to be drawn, subject to those funds meeting appropriate standards in their governance, efficiency and performance.**

3. **Encouragement of a reasonable level of voluntary contributions to support the primary objective.**
4. **Fair and progressive tax treatment.**
5. **Interaction with the Aged Pension system to form a complementary approach to meeting the primary objective.**
6. **Investment of funds on a long term risk ad-adjusted basis in which the dual objectives of investing in the members' best interests and investing in the national interest are able to be addressed in as complementary a manner as is possible.**

The ACTU believes a number of the Subsidiary Objectives and Issues for Consideration as outlined in Treasury's Discussion Paper are appropriately addressed as issues which flow naturally under these supporting factors.

To this end the ACTU makes the following comments in respect of the supporting factors as outlined above:-

1. **Adequate funding of the superannuation system as part of the worker's remuneration during their time in the paid workforce or equivalent service in the unpaid workforce**
 - 1.1 The ACTU maintains the principal element to achieve adequacy of funding is the Superannuation Guarantee (SG) contribution and the principal issue of substance within the SG is the level of contributions which it prescribes. To achieve the Objective the ACTU proposes, the ACTU supports the SG contribution reaching 12% at the earliest possible time (which means that the timetable for phasing in the SG contribution to 12% should be restored by Government as a matter of priority) and also believes that the Government should commence planning to lift SG contributions to 15% at the earliest possible opportunity.
 - 1.2 The ACTU believes that the definition of who receives the SG needs to be wide enough to embrace payments made to persons when they are out of the paid workforce, and engaged in areas where superannuation payments would normally be made – on paternity leave, in receipt of workers compensation or in situations where community standards are such that superannuation payments should be made - in such cases as Carer's payments and the like. The ACTU remains concerned that those persons outside the workforce, and hence outside of the superannuation system, have a lesser access to retirement income.

1.3 The ACTU also supports an approach of defining an appropriate level of adequacy, and the development of and adoption of Adequacy Targets as a guide to progress being made towards and/or success in the achievement of sufficient superannuation savings having been accumulated to meet the primary objective. The ACTU believes the work done by the Association of Superannuation Funds of Australia (ASFA) in this area is a useful model in helping the public understand that funding superannuation at appropriate levels translates into a range of outcomes in respect of the likely standard of living an individual will have in retirement.

1.4 The ACTU also supports a process in which inequities in the superannuation system, particularly in relation to women, are directly addressed. Women have significantly lower accumulation balances than men – a factor driven in part by issues like gender pay inequality and the propensity for broken periods of employment. The ACTU's policy is that there should be an additional SG contribution of 2% for women as a means of commencing to address this issue of inequality.

2. The designation of appropriate funds into which occupational superannuation should be paid and from which retirement income is to be drawn, subject to those funds meeting appropriate standards in their governance, efficiency and performance

2.1 The original architecture of occupational superannuation envisaged a series of funds covering the workforce into which contributions would be made, but with a level of consistency of fund design and operation to ensure that broadly consistent outcomes were achieved for all workers when they reached retirement age. These funds became described as industry funds and were (and remain) not-for-profit funds in which simple fund design prevails – an accumulation fund with charges deducted for taxation, administration and insurance. They have also maintained high standards of governance including now being subject to a public review to assess the robustness of current approaches to governance.

2.2 The evolution of occupational superannuation has seen a range of alternative funds being developed as vehicles to receive occupational superannuation – sometimes because there were, simply, funds in existence when occupational superannuation began; sometimes because other financial institutions have seen the promotion of an associated fund as a means to further develop their financial services offerings. Typically these funds have differentiated themselves from industry funds in that the promoter of the fund, as a commercial institution, has received a commission or a fee for operating the fund.

- 2.3 The development of the Mysuper regime, arising from a review into superannuation arrangements, has played a limited role in identifying the characteristics of funds into which SG contributions are paid. In practice it plays little role in defining the fund landscape.
- 2.4 The development of a dual system from these two basic types of funds into which superannuation is paid (that is industry funds and commercial or retail funds) has, in part, led to a regime in which individuals can “choose” their own fund and a level of debate over what is the appropriate system of default funds to apply should individuals not be in a position to or not elect to choose a fund. A broad review into the system of default funds is currently being undertaken by the Productivity Commission.
- 2.5 Issues which would arise following a rigorous review of the choice system include if an individual chooses a fund which is outside the original architecture of superannuation (and the chosen fund fails to deliver an adequate accumulation sum due to either a new hierarchy of charges applying or from the use of poorly performing investment products) then should the other complementary parts of the retirement system simply act as a vehicle to fund this level of underprovision.
- 2.6 The ACTU’s view is that a regime of designated funds should exist, specifically designated as applying to the industry in which individuals work, from which individuals would be defaulted into (should they make no election as to which fund they wish their superannuation paid into). These funds should operate on a broadly consistent basis allowing for a measure of confidence that optimal accumulation balances will be achieved at retirement. Clearly, the less the hierarchy of charges the more will be available for workers to commence a drawdown of their accumulated account when they enter the retirement phase. Hence, and also given their record of governance, outperformance and operational efficiency, the ACTU supports the use of the industry fund network as the basis of determining what designated funds should exist.
- 2.7 In respect of default fund arrangements, as stated, the Productivity Commission is commencing a review into the suitability (or otherwise) of alternative default fund arrangements than the use of the Award system to specify the appropriate default funds for workers in particular industries (this is the basis of the system which has applied, successfully, for the past 30 years). It is noted that Treasury’s discussion paper on the Objective of Superannuation raised the issue “That the objective will provide a way in which competing superannuation proposals can be measured and a framework for evaluating the fairness, adequacy and sustainability of the superannuation system”. We also note the Terms of Reference for the

Productivity Commission which say, in reference to the issue of the development of criteria to assess (the) efficiency of (the) super system, that “The Productivity Commission should develop criteria to assess whether and the extent to which the superannuation system is efficient and competitive and delivers the best outcomes for members and retirees, including optimising risk-adjusted after fee returns.”.

As a matter of principle, the ACTU is not supportive of a system of competitive funds operating from which some arbitrary process would exist to determine an appropriate default fund. Notwithstanding this, if a review into the principles by which default funds might be selected is to occur, then the ACTU believes an objective assessment will support a proposition that a regime consistent with the original architecture for occupational superannuation as being the best means of establishing an orderly but fair and efficient approach, an optimal outcome for participants generally and the outcome which is best for good public policy.

2.8 The use of superannuation funds as post-retirement vehicles is an issue which has gained considerable momentum in recent years. Funds have become a convenient place to maintain a superannuation balance to draw down from (as opposed to, say, purchasing an annuity from an Annuity provider). As such competition within this sector has changed significantly, particularly leading to debate on the efficiency of various pension systems – their distribution and associated advisory systems, investment outcomes and the like. The ACTU believes that the following principles should underpin an orderly approach to post-retirement products:-

- Financial advice being provided at a professional level, but motivated as being in the best interests of the retiree aimed at ensuring secure long-term retirement income streams are maximised, including the management of longevity risk;
- Use of a network of not-for-profit funds which have the same characteristics of the not-for-profit funds in the accumulation phase – good governance, efficiency in fee delivery, strong net risk-adjusted performance;
- An ability to work with Government agencies to ensure orderly processing of related post-retirement payments such as the Age Pension.

3. Encouragement of a reasonable level of voluntary contributions to support the primary objective

3.1 The ACTU recognises the desire and appropriateness of voluntary contributions, in addition to SG contributions, being used to supplement accumulation savings accounts and hence retirement income planning. This objective has been part of a “three pillars” approach to retirement savings since the introduction of occupational superannuation in the 1980’s. Given a limited capacity for many workers to reach levels of superannuation savings necessary to meet our proposed Objective, the ACTU supports encouragement of voluntary contributions which are genuinely made to allow an individual to accumulate additional savings to meet the objective. This encouragement of voluntary contributions should be recognised through these contributions being eligible to have the same tax advantaged status as contributions made through the SG processes. However it is clear that this facilitative factor has become distorted in recent times as many wealthy people have used the favourable taxation treatment applying to superannuation as a means to invest large amounts of personal wealth and avoid paying the tax on the earnings of that wealth that they would normally be expected to pay. To this end the ACTU supports both a restatement of the principles underpinning the superannuation system as well as urging Government to take legislative reform to limit excessive personal savings being deposited in superannuation beyond its proper objective.

4. Fair and progressive tax treatment

4.1 The ACTU believes that there are imperatives in reforming the tax treatment of superannuation to allow Fund members to have the maximum opportunity to achieve the goal outlined in our primary objective. Principally this needs to focus on the need for low paid workers to not be “over-taxed” in the way in which their SG contributions are treated for taxation purposes and to provide maximum support to low paid workers so that their account balances can grow at as optimal a level as is possible. A further imperative in this area is that tax treatment be equitable – the ACTU’s view is that it is not equitable for low earners to have their superannuation contributions taxed at a greater relative marginal rate than other workers. The most practical solution to these issues is for the Government to legislate for the re-introduction of the Low Income Super Contribution (the LISC). Further, in the longer run, the ACTU would support a review of the taxation arrangements so that greater equity existed in the taxation arrangements applying to superannuation.

4.2 Much has also been said in recent times about the potential reform of the taxation concessions which apply to superannuation, which are particularly used by high income earners. A feature of the Objective the ACTU proposes is that it explicitly only says of super that it is to maintain a current standard of living – hence we believe that tax treatment and concessions should be focussed on achieving this objective and should be appropriately scaled back where they are being used for the purposes of accumulating wealth above and beyond the objective of maintaining a continuing standard of living in retirement.

5. Interaction with the Aged Pension system to form a complementary approach to achieving the primary objective.

5.1 The original stated aim of occupational superannuation, as referenced in Treasury's Objective of Superannuation paper was that superannuation should be a complementary measure to the Aged Pension system and that as account balances grew, there would be an opportunity for superannuation to provide some capacity for Australians to not have to rely solely on the full Aged Pension to provide for their retirement income. However the SG remains in its relative infancy and for most workers , it will be into the 2040's before they receive the full benefit of a lifetime of 9% SG contributions and the 2060's before they receive the benefit of a lifetime of 12% SG contributions. Given that we are also yet to have a timetable to provide for sufficient contributions to meet the ACTU's primary objective through SG contributions alone, it will be many decades before the full benefit of the superannuation system comes into being. Hence for the foreseeable future, the practical outcome for Australian workers is that their superannuation accumulations will only partially fund their standard of living in retirement and some reliance on all or part pension will be necessary.

5.2 Notwithstanding this, and particularly if the facilitative measures the ACTU refers to are brought into being as proposed, then superannuation will reach its stated aims at some time in the future.

5.3 The ACTU supports a number of initiatives in this area to enable maximum utility to be gained from the superannuation system in it playing a substantial role in contributing to Australian workers maintaining as high a standard of living as can currently be obtained given the current public policy settings. These initiatives, in addition to the other facilitative matters referred to in this submission, include practical financial planning to ensure workers see their superannuation balances as the source of funding a retirement income stream to cater for them in later life, education on the value of investment approaches to maintain

superannuation balances at optimal levels during the period of drawing down on superannuation balances and to this intent, pro-active positions being taken by funds in their default investment settings to continue to maximise account balances in this period of draw down.

- 5.4 The interaction of the Aged Pension system and superannuation is still a matter which would benefit from further work. Given the relative immaturity of superannuation, the use of Adequacy Measures would provide useful policy guidance on how various levels of superannuation plus pension are delivering on progress towards the Objective. An important step in this would be to revisit the changes made to the tapering of the pension as legislated in 2015.

6. Investment of funds on a long term risk-adjusted basis in which the dual objectives of investing in the members' best interests and investing in the national interest are able to be addressed in as complementary a manner as is possible.

- 6.1 The ACTU supports the maxim that superannuation funds operate in the best interests of members and that a primary responsibility of Trustees is to invest in a manner to maximise investment returns to members, noting that investment approaches are of a long term nature and structured to take account of the risk associated with investing in any asset class.
- 6.2 The ACTU asserts that a principal feature of the success of industry funds over the past 30 years has been the ability to essentially "get the investment process right". Substantially the investment approach of industry funds, in their default investment options: that is, their balanced funds, has been to construct portfolios where the asset allocations have favoured investment in real assets – such as Property and Infrastructure – over more traditional asset allocations, such as defensive assets like Bonds and Cash. Importantly, as featured in the ACTU's submission to the Senate Inquiry into the Governance of Superannuation funds, this has led to sustainable investment returns in which the interest/inflation differential has been able to be maintained at levels of around 4% (which is some 2% higher than retail funds which follow more traditional investment approaches) and which have been critical in supporting a case that only industry funds are structured to be able to meet the aspirations of members in seeking to achieve higher account balances, which in turn fund better standards of living in retirement. Further the ACTU's submission to the Senate Inquiry demonstrated the issue that retail funds were unable to move to the typical asset allocation portfolios industry funds maintain and remain competitive in their principal area of

measurement – the cost of delivery of the superannuation product to the average default member.

- 6.3 These issues demonstrate that it is possible to adopt investment approaches which serve the best interests of members test and the aim of investing in the national interest. However, the critical issue in this approach has been the issue of investing in investment vehicles which are also in the best interests of members – vehicles which do not have the traditional high fee structures associated with investing in real assets.
- 6.4 The ACTU believes that the delivery of this outcome has been a key differentiator and justification in maintaining a case for there to be public intervention in favour of industry funds as the principal vehicles into which SG contributions should be paid.

RESPONSE TO TREASURY'S QUESTIONS FOR CONSULATATION

1. The Objective recommended by the FSI

The ACTU believes this Objective at first instance is not specific enough in that it deals only with the issue of interaction of superannuation with the Aged Pension system in a superficial manner and secondly, sets no aspiration or criteria by which the system might be able to be judged.

The ACTU believes our approach of an Objective implies both aspiration and that mechanisms will need to be established or facilitated to bring about the Objective.

2. Alternative Objective and Reasons

This submission is devoted to this issue.

3. In which piece of legislation should the Objective be located

The ACTU agrees the objective should be located as a preamble to the SIS Act.

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