

CORPORATE SUPERANNUATION ASSOCIATION Inc.

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19 December 2016

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

Dear Mr Fitt

INQUIRY INTO SUPERANNUATION (OBJECTIVE) BILL 2016

We thank you for the opportunity to make a submission to the above inquiry.

The Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors. The Association now represents a total of 22 funds controlling \$72 billion in member funds, held in a total of some 560,000 individual accounts.

Of these funds, 12 have outsourced trustee services but maintain significant employer interest through policy committees. In general, these funds are sponsored by corporate employers, with membership restricted to employees from the same holding company group, but we also include in our membership two multi-employer funds with similar employer involvement and focus. A number of our funds have defined benefit divisions.

Size, in terms of funds under management, ranges from \$49 billion to \$64 million as at 30 June 2015.

Some of the smaller funds have their place in the pension fund structures of international groups, hence play an important role in the care and welfare of the worldwide workforces of these groups.

Need for a Statement of Objectives

It was understood by the superannuation industry that the purpose of legislating the objectives of the superannuation system was to set agreed policies regarding the reasons for the concessions extended to individuals and entities participating in the system.

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It was anticipated that once the policies have been agreed, it would be possible to establish a degree of stability regarding the taxing and general treatment of superannuation.

Need for Simplicity and Predictability

We are concerned that the recently enacted legislation, in the Treasury Laws Amendment Superannuation (Excess Transfer Balance Tax) Imposition Bill 2016 and the Treasury Laws Amendment (Fair And Sustainable Superannuation) Bill 2016, is highly complex. It will be costly for funds to administer and for individuals and their advisers to track and comprehend.

Engagement with superannuation, rather than increasing, will reduce in the face of the intricate rules. We recognise that it has been important to restrict tax concessions. However, we urge that future initiatives focus on simplicity, predictability, and building trust in the system.

Objectives: Preliminary Remarks

1. *The purpose of superannuation*

Superannuation exists to provide for workers and for their dependants in the event that the worker needs to cease work because of age, death or disability. The existing legislation, the *Superannuation Industry (Supervision) Act 1994 (SIS Act)*, promotes these purposes, through the definition of “superannuation fund” at section 10 and through the sole purpose test at section 62.

We accept that the objectives of the superannuation system must also encompass the objectives for which funds are established and operated. Economic and social conditions will affect the context in which the funds operate, and may inform policy regarding tax and other concessions, but policy needs to take account of the established objectives.

Implicit objectives of the superannuation system

The system, as it has developed over the last 50 years, appears to have encompassed the following aims:

- to use the system to reduce the dependency on the state for pension provision for workers and dependants in the event of the worker’s retirement, death or disability;
- to expand the coverage to try to make this arrangement apply to all workers, not just a few with more enlightened or committed employers; and
- to make the system work for a more mobile work force.

We believe that it is important that the above developments of flexibility and universality be protected.

2. *Income in retirement*

The focus on substituting occupational superannuation for Government pensions is reflected in the SIS Act. A focus on pensions is intrinsic. In addition, Government policy has also for many years to varying degrees offered concessions targeted at persuading individuals to use their savings to fund an income product.

The higher Reasonable Benefit Limit (**RBL**) applicable when a person drew the majority of their benefit in pension form was an example of such a concession.

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A further focus has been on adequacy.

3. ***Adequacy***

Recently, there has been a growing focus on the need to make *adequate* provision for workers in their retirement. Resources have been used at Government and at industry level to try to model the level of contributions and savings required to generate an adequate living in retirement. Government policy has been modified, e.g. through changes in the SG contribution requirements, to try to achieve a higher level of private funding to this goal.

Primary objective in the Bill

We believe that the primary objective at proposed subsection 5(1) is incomplete:

1. ***To provide income in retirement to substitute or supplement the Age Pension***

- The proposed objective lacks a broad focus on provision for workers, and their dependants, when the workers can no longer work. The purpose of a superannuation fund, as stated at SIS Act section 62, supports this.
- It leaves unclear what level of provision of income is aimed at.

One suggestion is that the primary objective should be to provide Australians with an adequate (to be defined) level of income in retirement, after taking any applicable Age Pension into account. Further (whether part of the primary objective or a prominent subsidiary objective) the superannuation system should protect Australians and their dependants from the consequences of early death or disablement.

There is an important role to be played by insurance in this process. MySuper default arrangements require some Death and TPD insurance to be provided by the super fund. Insurance is built into the benefit design in Australian super funds and this should be reflected in the agreed “objective”. Insurance should continue to occupy a protected role within superannuation. This provides protection for many people whose retirement savings would otherwise be inadequate in the event of premature death or disablement and who would therefore fall back upon government income support. Individuals do not generally take the initiative of organizing this and cannot, on their own, command the favourable rates achievable through bulk arrangements by their funds.

2. ***Adequacy***

This issue is extremely important, in that it should inform the primary objective. Government resources are limited, and it is seen that there must be a limit to the extent to which these are used for Age or Disability Pension provision and in providing tax concessions for retirement savings. A balance must be struck between:

- modest to generous replacement percentage of pre-retirement income; and
- cost to Government.

It is suggested that after appropriate modeling, lower limits, or some indication of these, should be stated in the objective. A reference to the inappropriateness of the use of the superannuation system to support unlimited wealth accumulation or bequests would provide the policy context for upper limits to contributions or accumulations.

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Some mention should also be made of the place of lump sum benefits in the system.
We are happy to respond further as required.

Yours sincerely

Mark N Cerché
Chairman
Corporate Superannuation Association