

File Name: 2016/07

06 February 2016

Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: superannuationobjective@treasury.gov.au

Dear Jenny,

Objective of Superannuation

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the Objective of Superannuation Discussion Paper.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system so people can live in retirement with increasing prosperity. We focus on the issues that affect the entire superannuation system. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90 per cent of the 14 million Australians with superannuation.

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If you have any queries or comments regarding the contents of our submission, please contact Glen McCrea on (02) 8079 0808 or by email gmccrea@superannuation.asn.au, or Julian Cabarrus on (02) 8079 0815 or by email jcabarrus@superannuation.asn.au

Yours sincerely



Pauline Vamos
Chief Executive Officer

Introduction

ASFA believes the primary purpose of the system should be defined and enshrined in legislation. In designing, developing and renewing the system future policies must meet the primary objective and fit within the terms of the subsidiary objectives.

ASFA also recommends the establishment of fundamental design principles which will help align policy and system settings with the objectives.

Finally the system needs to measures of success that are tracked on an ongoing basis against the objectives.

This is the framework ASFA proposes is put in place.

More particularly, ASFA has concerns with the wording of the primary objective as set out by the FSI as it is open to various interpretations and it needs to go further in defining adequacy in retirement.

Most of the proposed subsidiary objectives are workable in their current form, however refinements are required to more accurately reflect the purpose of the system.

Adequacy also needs to be defined on a system basis. It should aim to enable the majority of workers to have a replacement rate of their pre-retirement income at 65% (with an appropriate ceiling applied), with 50% of retirees being able to generate a level of income for a comfortable standard of living.

In this document we have,

- Outlined an alternate definition of the primary purpose
- Refined the subsidiary objectives
- Highlighted the necessary design principles to ensure those purposes and objectives are achieved
- Proposed measure of success against which to track the system

Question 1: Do you agree with the objectives recommended by the FSI? Why?

The FSI report proposes that the primary objective of the superannuation system should be:

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

ASFA believes the objective should be clarified to ensure the system operates to deliver adequate levels of income thereby supporting the achievement of a dignified retirement for all Australians. It should include consideration of meeting aged care and health care expenses in retirement.

To achieve this, the objective should clearly articulate the social goals of the system and define a related measure of adequacy. This will provide an effective, enduring platform to measure superannuation proposals against in years to come. It will also provide much needed clarity to the community, whose savings and retirement outcomes are at stake.

The proposed objective is open to interpretation. For example, whilst ASFA does not believe this is the intention, we are concerned that the concept of substitution could be read as pegging the level of income the system aims to deliver to the age pension. ASFA supports a concept of substitution

that infers self-funding in retirement so that the age pension is not required for a subset of the community. Superannuation must provide a higher standard of living to Australians in retirement than the age pension.

A clear and measurable objective will eliminate ambiguity and build trust and confidence between policy makers and the community. It will protect against detrimental changes that erode belief in the system and promote policies that deliver an adequate standard of living in retirement.

The FSI Report also recommends that the Government should seek broad agreement on the subsidiary objectives of the superannuation system, namely:

- facilitate consumption smoothing over the course of an individual's life
- help people manage financial risks in retirement
- be fully funded from savings
- be invested in the best interests of superannuation fund members
- alleviate fiscal pressures on Government from the retirement income system
- be simple and efficient, and provide safeguards

ASFA recommends that the subsidiary objective to “be simple and efficient, and provide safeguards” forms part of the system's design principles. In addition, two new subsidiary objectives should be incorporated to more accurately reflect the purpose of the system. These are to be equitable for current and future generations, and to protect members who suffer misfortune or personal tragedy..

Over the past decade or more the retirement system has been subject to incremental changes and a significant degree of policy inconsistency. This has been a source of considerable confusion in the community and has reduced people's confidence in the stability and reliability of the system.

In order to create an environment for improved consistency in policy decision making and a stable system, it is also necessary to establish fundamental design principles to guide policy construction. These design principles should underpin retirement income policy including changes to tax settings affecting superannuation.

ASFA believes a design principle of universality is required. The importance of reasonable tax concessions to incentivise voluntary contributions should be acknowledged and savings should be quarantined from funding unrelated public policy objectives.

Finally, we will need to do more than simply enshrining the objectives in legislation and requiring public reporting on how the future policy proposals are consistent with these objectives. While both these initiatives will be critical to guide policy-makers, regulators, industry and the community about superannuation's fundamental purpose, we will also need to agree tangible measures of success and monitor progress against these.

Question 2: If you do not agree with the FSI recommendation, what do you think should be the objective of superannuation? Why? What are the implications of this objective?

ASFA's response to this question is divided into the following sections:

- 2.1 Primary Objective
- 2.2 Subsidiary Objectives
- 2.3 Design Principles
- 2.4 Retirement Outcomes
- 2.5 Measures of Success
- 2.6 Tracking the System
- 2.7 Aged care and health care

2.1 Primary objective

The provision of income in retirement is the delivery mechanism for the superannuation system and it needs to be designed to deliver income streams – there is widespread agreement on this matter. There are however further issues that must be addressed within the objective if it is to provide a meaningful yardstick:

- What standard of living is the system aiming to deliver to the community in retirement?
- How much income is required to achieve this?

ASFA believes that the core purpose of the system is to enable the achievement of a comfortable, dignified retirement, free from undue economic and social hardship, funded by an adequate level of superannuation savings. This includes provision for future health and aged care costs. The objective should articulate this and define precisely what the system aims to deliver to the community.

All Australians should be financially confident in retirement. They spend a working lifetime contributing their income to a compulsory system, and it is fair to expect a comfortable retirement commensurate with this sacrifice in return. Preservation of their savings requires the community to forego expenditure today, so that they can enjoy a better standard of living in retirement.

An appropriate primary objective will guide the design of superannuation policy to ensure as many people as reasonably possible have an adequate income that meets their needs, both expected and unexpected, throughout retirement. This will minimise the number of retirees living in poverty or relative poverty, and maximise the number living in comfort and with dignity.

With the objective as their constant guide policy makers will champion the achievement of adequate retirement outcomes, and liberate superannuation policy from constant political tinkering. Government has the opportunity to enshrine this enduring commitment to the community within the objective. ASFA's suggested primary objective is as follows:

Primary objective	Why the objective is important
Ensure that all working Australians, save for their retirement throughout their working life to achieve an adequate level of income throughout retirement.	It is fundamental the Australia’s economic and social well-being. There will be a significant reduction in the burden on the social security and healthcare systems. Retirees will live healthier lives, be more active participants in society, and contribute to growth as the consumers of the future. They will be empowered to spend quality time with family and contribute to the community, strengthening the social fabric of the nation. Younger generations will have confidence in the system and aspire to a better future through it.

2.2 Subsidiary objectives

The primary objective defines the core purpose of the superannuation system. However, ASFA agrees that a single primary objective cannot possibly encompass the full purpose of the system. Subsidiary objectives are required to comprehensively define this fuller purpose.

In order to achieve this, ASFA recommends the following additional subsidiary objectives are incorporated in the framework, alongside those recommended by FSI:

Subsidiary objective	Why the objective is important
Be equitable in its outcomes for current and future generations	<p>The superannuation system must be equitable in its outcomes.</p> <p>Intra-generational equity in the system ensures individuals are treated fairly after taking into account different levels of income and net worth. Inter-generational equity describes the burden or benefit one generation has compared with another.</p> <p>Treating individuals fairly promotes confidence and belief in the system. As the system matures, this will manifest itself in higher levels of voluntarily engagement by superannuation members to achieve better retirement outcomes.</p>
Protect members who suffer misfortune or personal tragedy	<p>The provision of group insurance is a crucial part of the superannuation system that assists Australian’s who suffer misfortune.</p> <p>These arrangements alleviate underinsurance, and the potentially devastating economic implications for individuals and their families who face personal tragedy. Lack of cover also adds to the call on the public purse through increased social security benefits including disability payments and single parent allowances.</p>

One of the FSI’s proposed subsidiary objectives is that the system be invested in the best interests of superannuation fund members. Whilst this is a worthwhile objective it should be noted that covenants relating to member best interests are enshrined in the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and operate far more broadly than the proposed objective.

With this in mind, it is worth noting the objectives should operate in a manner that do not unduly compromise, override or replicate superannuation law. They should instead provide a reference

point that policy makers must consider and meet in designing, developing and renewing superannuation policy.

2.3 Design principles

The establishment of fundamental design principles will help align policy and system settings with the objectives. In addition to supporting the primary and subsidiary objectives, referencing these design principles will promote confidence in the system by creating an environment for improved consistency in policy decision making. The design principles are a means to an end for the superannuation system.

ASFA recommends the following design principles be adopted:

Design Principle	How the design principle will support the objectives
Universal system that belongs to all working Australians	<p>Universality implies that the system is designed so that the benefits it delivers belong to all working Australians.</p> <p>The costs and benefits of the system should be shared by all, delivering a reduced burden on the social security system and substantially better retirement living standards for all cohorts, including low income earners.</p>
Savings are not to fund unrelated public policy objectives	<p>Superannuation policy should be designed to improve retirement outcomes. The growing pool of private savings must be protected from the constant threat of erosion to fund unrelated public policy measures.</p> <p>The use of savings to fund unrelated public policy objectives diminishes confidence in the system and disillusion members.</p>
Incentivise voluntary contributions and saving within the system	<p>The system should be designed to incentivise voluntary contributions and saving within the system and must be tax effective to achieve this. Incentives to save generate higher standards of living in retirement and reduce reliance on the age pension.</p> <p>All things being equal, erosion of this principle requires much higher levels of contribution to achieve adequacy in retirement. Savers would also utilise alternative tax effective vehicles that avoid preservation, placing retirement outcomes at risk.</p>
Be simple and efficient, and provide safeguards ¹	<p>The system should be designed to achieve its objectives at the minimum cost to individuals and taxpayers. Complexity is less appropriate for a compulsory system, as it tends to add to costs and to favour sophisticated and well-informed investors.</p> <p>Given the compulsory nature of SG contributions, the system needs prudential oversight and should provide good outcomes in both the accumulation and retirement phases for disengaged fund members.</p>

¹ This item is one of FSI's proposed subsidiary objectives. ASFA believes that it is more appropriate to incorporate this as a design principle.

2.4 Retirement outcomes

While superannuation may be achieving its primary objective at the highest level by substituting and supplementing the Age Pension, it is the degree to which the system is achieving this that is important. The questions that must be answered to define and measure the objective are:

- What standard of living is the system aiming to deliver to the community in retirement?
- How much income is required to achieve this?

Standard of Living

One of the most important steps in establishing what is an adequate retirement income is calculating how much is needed to be spent each year in retirement to support a comfortable lifestyle. However, many people struggle when it comes to developing a budget for their future needs, particularly when their retirement is many years away.

The ASFA Retirement Standard has been developed to help solve this problem by objectively outlining the annual budgets appropriate for various categories of Australians to fund their needs in their post-work years. It provides benchmarks for both a comfortable and modest standard of living, for both singles and couples, and is updated quarterly to reflect changes to the consumer price index (CPI).

Modest and comfortable standards of living in retirement are relevant to the bulk of retirees. First launched in 2004, the Standard has been enhanced over the past 10 years to increasingly provide a more comprehensive picture of retirees' spending requirements. It has also been revised to reflect changes in living standards, retirees' lifestyle expectations and their evolving spending patterns.

In 2015, ASFA launched a new Retirement Standard for older retirees, designed to provide a picture of how spending requirements change as people enter their late 80s and early 90s. Like the original Standard, it provides benchmarks for both a comfortable and modest standard of living, for both singles and couples, and is updated quarterly to reflect changes to the CPI.

What is considered a modest and comfortable retirement lifestyle for retirees?

A modest retirement lifestyle is considered better than the Age Pension, but still only enables retirees to afford fairly basic activities.

A comfortable retirement lifestyle enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as: household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel. For those aged 85 and over it is assumed that a car is not owned and there is no international holiday travel, but medical and aged care expenses are higher.

The various budget levels assume that the retirees own their own home outright. Tables 1 and 2 on the following page demonstrate the modest and comfortable budgets:

Objective of Superannuation – ASFA submission

Table 1: Budgets for various households and living standards for those aged around 65 (December quarter 2015, national)

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Housing - ongoing only	\$73.38	\$70.44	\$85.05	\$98.59
Energy	\$41.04	\$54.51	\$41.65	\$56.48
Food	\$77.42	\$160.38	\$110.60	\$199.09
Clothing	\$17.78	\$28.86	\$38.48	\$57.72
Household goods and services	\$27.20	\$36.88	\$76.51	\$89.63
Health	\$42.41	\$81.84	\$84.13	\$148.49
Transport	\$92.62	\$95.24	\$138.02	\$140.64
Leisure	\$75.81	\$112.94	\$229.73	\$314.82
Communications	\$8.74	\$15.29	\$24.01	\$30.56
Total per week	\$456.39	\$656.38	\$828.19	\$1,136.02
Total per year	\$23,797	\$34,226	\$43,184	\$59,236

The figures in each case assume that the retiree/s own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly, unless otherwise stated.

Table 2: Budgets for various households and living standards for those aged around 85 (December quarter 2015, national)

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Housing - ongoing only	\$73.38	\$70.44	\$85.05	\$98.59
Energy	\$41.04	\$54.51	\$41.65	\$56.48
Food	\$77.42	\$160.38	\$110.60	\$199.09
Clothing	\$17.78	\$28.86	\$38.48	\$57.72
Household goods and services	\$47.75	\$67.79	\$148.44	\$171.81
Health	\$91.59	\$142.20	\$125.44	\$200.11
Transport	\$38.53	\$48.16	\$43.35	\$52.98
Leisure	\$48.30	\$72.06	\$124.84	\$172.57
Communications	\$8.68	\$15.20	\$23.87	\$30.38
Total per week	\$444.48	\$659.50	\$741.72	\$1,039.73
Total per year	\$23,176	\$34,388	\$38,675	\$54,215

The figures in each case assume that the retiree/s own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly, unless otherwise stated.

Academics and policy advisers frequently use these standards for determining the success or otherwise of various policy options and settings and they are generally accepted as being a reasonable reflection of the basic costs of living in achieving a dignified retirement.

There has however been recent debate on this matter, with particular criticism focussed on the supposed generosity of the ‘comfortable’ budgets. It is of course difficult to make such criticisms of the ‘modest’ budgets given that they involve a lifestyle slightly above what is generally considered to be poverty in Australia. While it may be true that in the past the vast majority of retirees have had to live on not much more than the Age Pension, this is not a good reason to perpetuate that outcome.

Compulsory super and tax concessions for super were brought in to improve outcomes in the future. While currently 20 per cent of retirees live at the comfortable level, as the system matures and provided tax and other settings are not subject to significant adverse changes, this percentage is projected to increase.

A growing number of older Australians affording items such as decent food, transport, and leisure activities would be a remarkable policy achievement. Retirees will live healthier lives, be more active participants in society, and contribute to growth as the consumers of the future. They will be empowered to spend quality time with family and contribute to the community, strengthening the social fabric of the nation.

How much income is required to achieve a modest or comfortable retirement?

From age 65 up until age 90, the gap between the full Age Pension and the spending required to live a comfortable retirement is around \$25,000 a year for a couple and around \$20,000 a year for a single person. Currently this would require a retirement savings balances at age 65 for a couple of \$510,000 and \$430,000 for a single to achieve this over a period until they are about 90.

Taking the expenditure needed to sustain a comfortable lifestyle while a single or couple are in their 90s changes these numbers. More years of expenditure have to be funded, albeit at a lower level due to the changes in expenditure required. A single person living into their 90s would require \$10,000 per year in addition to the Age Pension to fund a comfortable lifestyle, while for a couple the figure is around \$20,000. Budgeting for this additional 10 years, requires around \$45,000 in additional private retirement savings at age 65 to accommodate these additional years of expenditure after age 90. A couple would need to save around \$50,000 more by age 65.

At age 80, a couple would need to still have about \$360,000 in retirement savings to be confident that they could have a comfortable standard of living well into their 90s, while for a single person the figure is around \$260,000.

At age 90, the figures are much lower, reflecting the reduced life expectancy at that age. A couple would need about \$120,000 in remaining retirement savings while for a single person the figure is \$70,000.

The amount of retirement savings needed at Age Pension qualifying age will change with the tightening of the asset test for the Age Pension. The tightening of the asset test will not impact on

the savings required to support a modest lifestyle in retirement or on the savings needed to be in place at age 85 to support a comfortable standard of living in retirement, but it will impact on the savings needed for a comfortable standard of living from age 65.

Increasing the taper rate for part-pensioners from \$1.50 to \$3.00 per \$1,000 of assets, while also increasing the threshold at which the asset test starts to apply, would require a couple to save around \$120,000 more for a comfortable retirement, requiring a super balance of \$630,000. There will be a greater impact on single retirees, who will need to save \$180,000 more in superannuation or a total balance of \$610,000. Both figures assume the retirees will draw down entirely on their capital, and receive as part-pension as their assets decrease.

What do retirees think about this issue?

Research studies have shown that even a modest increase in income in retirement can result in significant improvements in retiree satisfaction. Analysis of the results of an investment trends survey found that, in retirement, every \$5,000 increase in annual income has the following impact on people's quality of life:

- those on \$20,000 per annum felt they struggled to make ends meet
- those on \$25,000 per annum felt they were just getting by
- those on \$30,000 per annum felt they had a little left over
- those on \$40,000 per annum felt were able to live comfortably²

A superannuation-sourced income stream of only \$5,000 per annum can boost a retiree's income by 25 per cent compared to the Age Pension alone. This can have a significant positive impact on their standard of living.

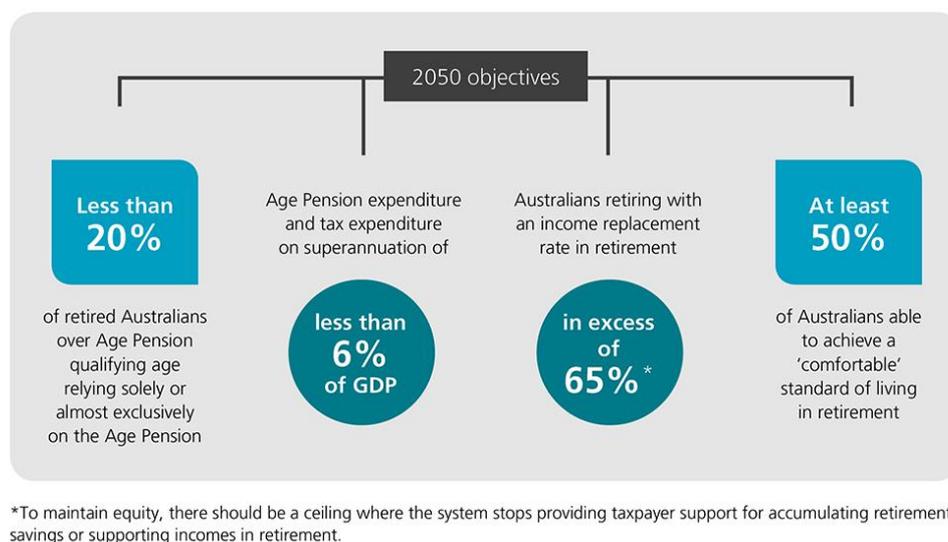
Achieving a comfortable retirement is the hope and aspiration of the bulk of Australians, and the achievement of this is fundamental to Australia's economic and social well-being.

2.5 Measures of Success

ASFA has proposed four quantitative measures to guide the design of superannuation and retirement income policy settings and measure the outcomes that are being achieved. These objectives focus on the cost of the Age Pension and tax concessions for superannuation relative to GDP, levels of reliance on the Age Pension, the level of income replacement in retirement and the percentage of the retired population living at a standard equivalent at least to the ASFA Retirement Standard 'comfortable' level.

The measures examine both social and fiscal aspects of the system. They are aspirational in nature with a 2050 timeframe, however we recommend the system should be progressively tracking towards these in the interim (as discussed in section 2.6). The proposed measures are:

² Investment Trends, *Retirement Income Report*, November 2013, for MLC/NAB, reproduced with permission



Percentage of retirees on the full Age Pension

Measure #1: Less than 20 per cent of retired Australians relying solely or almost exclusively on the Age Pension.

Currently, 40 per cent of Australians old enough to qualify for the Age Pension receive a full Age Pension. This 40 per cent of the population have very little other income. Halving this percentage would be a major achievement given that there is a substantial proportion of the population that has little, if any, paid employment during their life. Achieving this would make a substantial contribution to containing future public expenditure on the Age Pension and enforce the age pension's focus as being a social safety net.

Expenditure on the Age Pension and tax concessions for superannuation

Measure #2: Age Pension expenditure and tax expenditure on superannuation of less than six per cent of GDP.

ASFA has proposed limiting total direct and indirect public expenditure to no more than six per cent of GDP. This is around half the average projected level for OECD countries for public pensions alone. If achieved, it would be lower than just about any other developed country.

Current expenditure on the Age Pension is around 2.7 per cent of GDP and was projected to grow to around 3.9 per cent of GDP by 2050, if policy settings were not changed. The change to the asset test for the Age Pension will reduce that percentage.

A goal of total direct and tax expenditure of less than 6 per cent of GDP is proposed, but on the basis that tax expenditure are properly measured. Taking into account savings on the Age Pension bill and behavioural and other changes if tax concessions for super were removed, current tax expenditure on superannuation is just over 1 per cent of GDP. This tax expenditure is projected by ASFA to grow to no more than 2 per cent of GDP by 2050.³

³ This assumes the basic structure of current tax policy settings for contributions, fund earnings and benefits are kept in place

To promote sustainability in the system, public expenditure on the Age Pension and superannuation tax concessions should be consistently monitored to ensure the objectives of the system are met whilst expenditure proceeds at a level that reflects international best practice.

Average replacement income in retirement

Measure #3: Australians retiring with an income replacement rate in retirement in excess of 65 per cent.

Currently, the average replacement rate of household income in retirement is less than 40 per cent of household disposable income during people's prime working years. The proposed target of 65 per cent is a significant increase in average living standards in retirement by the year 2050. The change to the asset test will make this average replacement rate more difficult to achieve, with increases in compulsory and voluntary contributions necessary, all other things being equal.

For those on well above average incomes during their working years, the ASFA Retirement Standard budgets may have only some relevance. Often those on relatively high incomes look to a percentage replacement rate of income in retirement. Rule of thumb guides that are applied in financial planning contexts are usually around 60 per cent of gross pre-retirement income or 70 per cent to 75 per cent of net, after tax, pre-retirement income. The OECD average for net replacement rates for average-income earners is equal to 63%⁴.

The current low level of replacement rates is largely a function of the immaturity of the system combined with system settings e.g. SG contribution rates. Low replacement rates mean that the majority of current retirees are unable to meet ASFA's primary objective of a comfortable retirement.

We have recommended within our subsidiary objectives that the system be equitable in its outcomes for current and future generations. ASFA considers that the superannuation system should not be used for the purpose of estate planning, and that to fulfil the purpose of the system, account balances should be close to zero on death, taking into account normal longevity.

In essence, this means that there should be a ceiling on where the system should stop providing taxpayer support for accumulating retirement savings or supporting incomes in retirement. It is ASFA's view that the ceiling today should be \$2.5 million.

Proportion of retirees reaching the comfortable ASFA standard

Measure #4: At least 50 per cent of Australians able to achieve a 'comfortable' retirement lifestyle, as described in the ASFA Retirement Standard

Currently, less than 20 per cent of single people aged over 65 are able to support a standard of living at or above the ASFA Retirement Standard 'comfortable' level and only around 30 per cent of all couples able to support that level. Additional personal contributions and/or enhancements to

⁴ Pensions at a Glance 2015: OECD and G20 indicators p.27

government assistance will be needed to meet the proposed goal of at least 50 per cent of retirees achieving at least the comfortable standard. ASFA projections indicate that, on the basis of current policy settings and contributions, less than 20 per cent of singles and less than 50 per cent of all couples will be able to support the comfortable standard in retirement in 2050.

The \$2.5 million ceiling on taxpayer support would also improve the equity and sustainability of the system.

2.6 Tracking the system

ASFA supports the FSI recommendation to “report publicly on how policy proposals are consistent with achieving these objectives over the long term”⁵. Periodically assessing how the system is tracking will provide regular benchmarks for the Government and other stakeholders to measure performance against, facilitating informed policy decision making.

Superannuation policy decisions should not be made in the context of the annual budget cycle and tax expenditures statement. Consistency with long-term objectives, as proposed by FSI, is the way forward. This aligns with the long-term nature of superannuation savings and is in the interests of all working Australians who contribute to the system.

ASFA believe such an approach will provide a higher degree of stability, integrity and accountability in relation to superannuation policy. It will guard against short-termism and drive transparent, consistent in decision making. A likely outcome of this will be increased confidence in the system, promoting member engagement and voluntary savings.

One approach is to incorporate periodic reviews in the Intergenerational Report (IGR) produced by the Government every five years. The IGR assesses the long-term sustainability of current Government policies and how changes to Australia’s demographics may impact on economic growth, workforce and public finances over the next 40 years.

The IGR already considers some of ASFA’s proposed measures in its commentary. For example, the 2015 IGR noted:

- 2014/15 expenditure on age and service pensions – 2.9% GDP⁶
- 2013/14 In 2013-14, around 70 per cent of people of Age Pension age were receiving the Age Pension. Of these, 60 per cent were in receipt of the full-rate pension.⁷

Arguably, measuring progress against a broader set of measures within the IGR falls within its broad remit and would add value to its conclusions. Alternatively, Government could perform a separate review in tandem with the IGR process.

⁵ FSI Final Report p.95

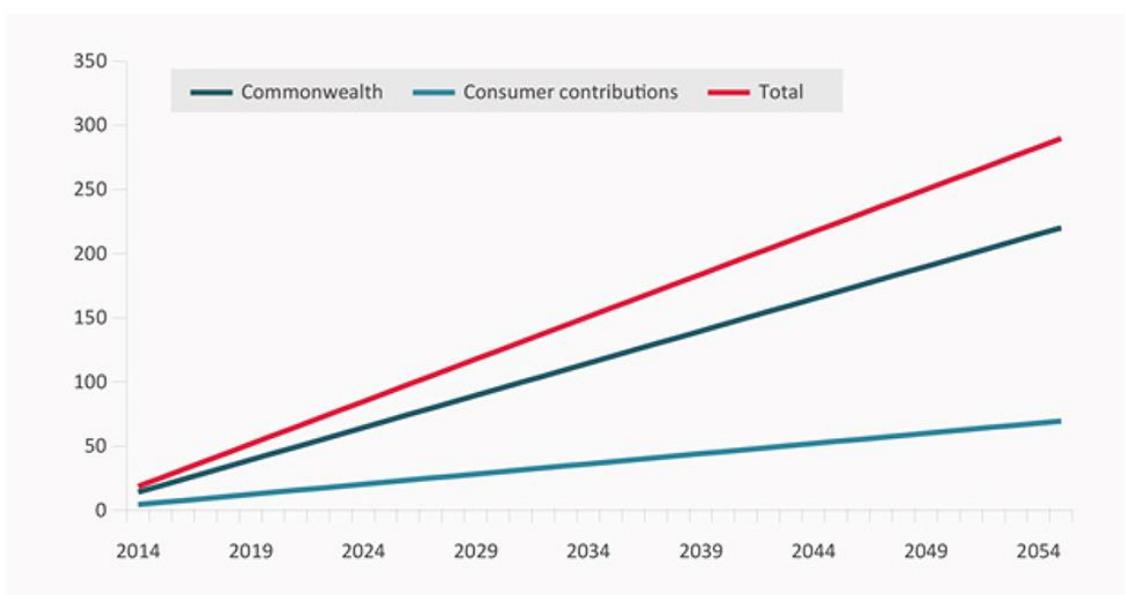
⁶ 2015 Intergenerational Report, Table A.3, page 100

⁷ 2015 Intergenerational Report, page 90

2.7 Aged care and health care

The costs of health and aged care are increasing due to the ageing population, which will result in greater pressure for individuals to fund their own expenses, as the costs of provision of these services by government rise. In particular:

- health care costs funded by the Commonwealth Government are projected to more than double in real terms, per person, over the next 40 years
- the total cost of aged care is projected to reach almost \$290 billion in 2055, primarily driven by an ageing population and an increase in the prevalence of dementia
- Australian Government aged-care expenditure is projected to rise from 0.9 per cent of gross domestic product (GDP) in 2014/2015 to 1.7 per cent of GDP in 2054/2055 (\$220.2bn, or \$80bn in today's dollars)



Source: 2015 Intergenerational Report.

In the context of the ASFA conference in November 2015, ASFA started a conversation on these issues, releasing a Discussion Paper on *The Future Interaction of Superannuation with Aged Care and Health Care*. The purpose of the discussion paper is to raise questions about how dealing with increasing health and aged-care costs might interact with the superannuation system. ASFA is seeking a broad range of views from stakeholders in order to inform future policy development in this area.

ASFA believes that the objective of superannuation should be designed to ensure all Australians are financially confident about their retirement. It could be reasonably argued that just providing replacement income for the segment of retirees who are lucky enough to remain healthy and free from significant aged-care costs would fall short of achieving this objective.

At the same time as the costs of aged care are rising, large numbers of Australians over the age of 45 are dealing with the aged-care system. They are uncertain about the system and find dealing with it difficult. More than half of those over the age of 45 are currently dealing with aged-care management issues for themselves, or for family members, or have dealt with it in the past. The majority of those dealing with the system find it difficult or somewhat difficult.

In 2015, ASFA commissioned a CoreData survey to assess Australians' perceptions regarding costs and other issues surrounding the provision of health and aged care, as well as the role of superannuation. Amongst other things, the survey indicated:

- There is clearly a gap in the provision of advice on aged-care issues.
- Close to half of the respondents thought their superannuation fund could play a greater role in helping organise and pay for aged care advice.
- Close to half of respondents support a rise in the Superannuation Guarantee (SG) rate beyond 12 per cent to help address the growing cost of aged care .
- More than two in five of those whose main superannuation fund is not a self-managed superannuation fund would like to receive some support in dealing with aged care from their main superannuation fund.

The CoreData survey shows that respondents consider superannuation can, and should play a key role in meeting the future aged care and health care needs of older Australians. ASFA agrees the superannuation system should do more of the heavy lifting to alleviate the inevitable and projected increase in expenditures outlined in the IGR.

Aged care and health care costs impact on both standard of living and financial requirements of those in retirement. ASFA believes that catering for these challenges should be an intrinsic part of superannuation's role in ensuring as many people as reasonably possible have an adequate income that meets their needs, both expected and unexpected, throughout retirement.

The objective implicitly incorporates privately funding aged and health care expenses. Appropriate measures should be designed to facilitate adequacy in relation to these. Further consultation on these matters will be required as changes to the aged and health care systems occur and the population ages.

Question 3: In which piece of legislation should the objective be legislated and why?

A new, stand-alone piece of legislation, the Objective of Superannuation Act, could hard code an agreed definition and place an obligation on the relevant Minister to make a 'statement of compatibility' with the objective of the system when legislation is introduced to the parliament that impacts on superannuation.

The *Human Rights (Parliamentary Scrutiny) Act 2011* (Cth) HR Act, by way of example, requires MPs and Senators to make statements of compatibility regarding legislation introduced to parliament that may impact on human rights. A statement of compatibility is not enforceable, but demonstrates that the issue has been considered and is consistent with seeking to align policy changes with an objective for superannuation.

Alternatively, the objective could be legislated in an existing Act such as the *Superannuation Industry (Supervision) Act 1993*, to reduce the proliferation of legislation.

Wherever the objective is legislated, superannuation policy decisions must be required to meet the primary objective and fit within the terms of the subsidiary objectives. Anything less will render the objective ineffective.