Consultation on legislating the objective of superannuation

Morgans Submission

31 March 2023

Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
Parkes ACT 2600

Email: superannuationobjective@treasury.gov.au

Dear Sir/Madam

Morgans Financial is Australia's largest national full-service stockbroking and wealth management network with more than 220,000 client accounts, with 520 authorised representatives and 950 employees operating from offices in all states and territories and many regional areas.

We appreciate the opportunity to provide a submission to Treasury in relation to legislating the objective of superannuation. Our submission responds to the four (4) consultation questions asked, with quantitative references provided where relevant.

Key points

1. The current core purpose of Superannuation as defined in section 62 of the Superannuation Industry (Supervision) Act 1993 *(SIS Act)* – 'The Sole Purpose Test' – is already enshrined in legislation. We recommend no change to this section.
2. Australia's superannuation system must work for the 'average' Australian. If the current objective of Australia's superannuation system is changed in a way that diminishes members access and control, it will undoubtedly reduce the use of and the trust in the superannuation system. This will inevitably harm the Australian economy, as there will be less investment and fewer jobs.
3. We do not believe the proposed objective meets our understanding of the objective of the superannuation system in Australia.
4. We support income in retirement as an important purpose of superannuation, however, we also support the need for flexibility in relation to (i) the form in which benefits are taken e.g. lump sums, and (ii) the timing around when benefits can be taken particularly in times of financial hardship.
5. Where legislative and regulatory changes are going to be made by any Australian Government, sufficient time should be provided for Australians to be able to appropriately plan for those changes.
6. We believe the use of superannuation for first home buyers and the whole question and maintaining dignity, and being able to access superannuation in times of financial stress resonates with the Australian public.

If you have any questions in relation to this submission, please feel free to contact the undersigned, email terri.bradford@morgans.com.au or phone 07 3334 4979.

Yours sincerely

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Executive Summary

Australia's superannuation system already has a clearly defined and well understood objective. The objective is enshrined in legislation and is clearly stated, in plain English, in section 62 of the Superannuation Industry (Supervision) Act 1993 *(SIS Act)* and includes.

- Core Purposes (i) the provision of benefits, to the member, upon retirement or attaining a certain age and (ii) provision of benefits, on or after the member's death, to their dependants and or to their estate, and
- Ancillary Purposes, including (i) the provision of benefits, upon cessation of work, on account of ill-health and (ii) The provision of benefits, as the Regulator approves in writing.

APRA's current guidance on section 62, dates back to 2001: *Superannuation Circular NO. III.A.4*
https://www.apra.gov.au/sites/default/files/superannuation-circular-iii-a-4-the-sole-purpose-test.pdf

The ATO's current guidance on section 62, dates back to 2008: *SMSFR 2008/2*
file:///C:/Users/SK/Downloads/smsfr2008-002c1.pdf

These core purposes have been fundamental to the industrial relations covenant, struck between workers, employers and the Government and has seen Australians accumulate in-excess-of $3.3trillion in superannuation savings, much of which has been invested into the Australian economy.

Australians have negotiated employment contracts, in good faith, which have included, as part of their salary package, material contributions to their superannuation savings, in the belief that the purpose of super, enshrined in section 62 of the SIS Act, would not be changed by future Governments.

Australians have accepted and trusted that their Superannuation Guarantee Contributions *(SGC)*, which will soon be 12% of their income, will be invested for the sole purpose(s) of providing benefits for their retirement and or benefits on their death, to their dependents & or their estate and dealt with in accordance with their Will.

Whatever decision is made following this consultation period, it is important to remember that Australia's superannuation system must work for the 'average' Australian. Philosophically, the 'average' Australian should be able earn a sufficient income to look after themselves, their family, buy a home and be financially independent in their retirement and the system needs to respect and balance all of these goals. We firmly believe restricting superannuation to an income-only structure is taking a step backwards. Flexibility is and has always been integral to the success of our superannuation system. This must be respected when entertaining any ideas for change.

In summary,

1. The current core purpose of Superannuation as defined in section 62 of the Superannuation Industry (Supervision) Act 1993 *(SIS Act)* – 'The Sole Purpose Test' – is already enshrined in legislation. We recommend no change to this section.
2. Australia's superannuation system must work for the 'average' Australian. If the current objective of Australia's superannuation system is changed in a way that diminishes members access and control, it will undoubtedly reduce the use of and the trust in the superannuation system. This will inevitably harm the Australian economy, as there will be less investment and fewer jobs.
3. We do not believe the proposed objective meets our understanding of the objective of the superannuation system in Australia.
4. We support income in retirement as an important purpose of superannuation, however, we also support the need for flexibility in relation to (i) the form in which benefits are taken e.g. lump sums, and (ii) the timing around when benefits can be taken particularly in times of financial hardship.
5. Where legislative and regulatory changes are going to be made by any Australian Government, sufficient time should be provided for Australians to be able to appropriately plan for those changes.
6. We believe the use of superannuation for first home buyers and the whole question and maintaining dignity, and being able to access superannuation in times of financial stress resonates with the Australian public.

Question 1. - What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?

Benefits: The current core purposes of Super, as enshrined in the SIS Act, are the objectives of Australia's superannuation system and have given Australians the confidence to forego real increases in their take home pay, every pay, for the last 30 years. Australians know the value of saving and compounding returns and the importance of taxation. As a consequence, Australians have agreed to a 50 year plan of savings and sacrifices, called superannuation, taking home less money each pay, in return for concessional tax rates on their savings and their compounding investment returns.

Australia's superannuation system must work for the 'average' Australian. If it doesn't, the burden on future Australian taxpayers will be too high to sustain current living standards. The government must strike a balance between their tax take today, what they spend today, and what future taxpayers will be able to afford. Philosophically the 'average' Australian, should be able to earn a sufficient income to look after themselves, their family, buy a home and be financially independent in their retirement and the tax system needs to respect and balance all of these goals.

To illustrate.
If the marginal tax rate + medicare on your savings outside of super is 34.5%, then to save $10,000, e.g. for your home loan repayments, you will need to earn $15,267 and pay $5,267 in tax + medicare, leaving $10,000 after tax.

However, if you were directing that same $15,267 to super, where the contributions tax rate is 15%, your total savings *(income $15,267 less tax $2,290)* would be $12,977, a 29.8% increase in the amount of money you can save.

The next step is to consider the impact of the two different tax rates, on your compounding investment returns. So, for the tax rates above, if you could earn 10%p.a. pre-tax, compounded for 50 years, your $15,267 of income, saved outside of super, would turn into $238,000, while the same $15,267 contributed to super would grow to $766,000. A massive $528,000 difference just by reducing the tax rate from 34.5% to 15%.

But here's where it gets interesting. You might have assumed that the Government has missed out on an enormous amount of tax, when in reality, over 50 years the super strategy will pay more tax, a total $135,000 in tax over 50 years, while the outside-super strategy will have only paid $125,000 over 50 years.

How is this possible? It's quite logical. With the high tax rate, the pool of investments *(e.g. the economy)* only grew to $238,000, so even though the tax rate was higher the pool of investments *(e.g. the economy)* is smaller, so the total tax dollars collected are smaller. While with Super, the pool of investments is in fact 3 times larger, so even though the tax rate is lower the total dollars collected is larger. True it takes 33 years, at a 10%p.a. compound rate of return, for the annual tax dollars collected from super, to exceed the tax dollars collected from the 'outside-super' investment strategy but it is worth it.

Refer to the Appendix for full savings analysis year on year over 50 years.

Of course, this analysis has only considered the tax collected from the individual who earnt the initial $15,267 but it is undoubtedly true there is a multiplier effect. A larger pool of investments will have created more jobs, more goods & services and more exports. There is no other way to generate 10%p.a. compound for 50 years, than to invest into the productive capacity of a society. You could speculate for a year or two, but this would ultimately fail, long-term compounding returns can only come from investment into productive activity.

Australia's economy is significantly larger, thanks to the Three Trillion Dollar superannuation investment pool, our lifestyle and living standards are higher and the Government is collecting considerably more tax today, than they would have been collecting if the superannuation system had never been established (a) from all of the superannuation savings and (b) from the increased level of economic activity. Arguably, even at this early stage of Australia's superannuation strategy, tax collections from savings and investments are 2 to 3 times higher than they otherwise would have been, without the SGC scheme.

Saving and investment are the key to long-term economic prosperity, and we are only 30 years into the 50 year retirement savings journey created by the SGC covenant. Everybody's retirement savings are larger, businesses have had access to trillions of dollars of investment capital and the Government is drawing taxes from a considerably larger and stronger economy.

It will take at least 50 years for the superannuation system to mature. So 30 years in, we have only just begun the exponential growth phase, where compounding investments returns materially outstrip contributions and withdrawals.

Risks: if the current objective of Australia's superannuation system is changed in a way that diminishes members access and control, it will undoubtedly reduce the use of and the trust in the superannuation system. What's more, it will ultimately increase the level of withdrawals from superannuation when members have met the retirement conditions and redirect family savings into other tax effective strategies. This will inevitably harm the Australian economy, as there will be less investment and fewer jobs.

Question 2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

We do not believe the proposed objective meets our understanding of the objective of the superannuation system in Australia. A more detailed commentary on the particular terms used in the proposed objective is outlined below.

The proposed objective in the consultation paper "Legislating the objective of superannuation." *(20 Feb 2023)*

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

The words **'Preserve Savings'** as defined[i] in the consultation paper,

*"**'Preserve savings'** refers to the principle of preservation; that is, the concept that contributions to superannuation should not be accessed unless for the purpose of income in retirement, apart from exceptional circumstances. This recognises that superannuation exists first and foremost as a savings vehicle to fund retirement and not a pool of individuals' savings to meet other lifetime costs."*

1. Superannuation must retain its flexibility as a savings vehicle to meet the retirement goals of individuals. These goals should not be dismissed as "other lifetime costs". Following a long working life, one would presume retirees have the right to spend their savings on something like:
    - Taking a once-in-a-lifetime holiday, or
    - Paying off a home loan, or
    - Buying a new car / caravan / boat, or
    - Renovating, etc.

2. Secondly it would appear to exclude the opportunity for considering individual homeownership, which is a long-term goal for many Australians. At one level, we understand that saving for retirement and saving for homeownership, are two discrete goals, but we also acknowledge that they are interconnected. They both need to be funded from the same individual's income. Maybe it is time to broaden the superannuation discussion from one of simply funding retirement, to one that can also address funding individual homeownership.

    We understand the value of compounding returns, but we also understand that the quality of your working life is as important as the quality of your retired life, and too many sacrifices in your working life, may simply lead to a short unhappy retirement.

We are not in favour of enshrining a purpose into legislation which restricts the Governments capacity to consider where and how superannuation fits into the homeownership puzzle or balancing the need for a "high-quality standard of living" for your whole life, not just in retirement.

The words **'Deliver income'** as defined[ii] in the consultation paper;

*"**'Deliver income'** captures the purpose of the superannuation system – to provide universal savings that are then drawn down in retirement to deliver income that support retirees' standards of living. The focus on delivering income makes clear that the purpose of superannuation is not for minimising tax on wealth accumulation or enabling retirees to leave tax-effective bequests."*

The definition contains four very alarming phrases;

1. "to provide universal savings that are then drawn down in retirement to deliver income that support retirees' standards of living."

   Does not appear to acknowledge that the superannuation savings actually belong to individual members. These are not 'universal savings' they are an individual's savings and the individual's savings are not for "retirees' standards of living" but for a retiree's standard of living.

   Any suggestion that superannuation savings are going to be pooled for the benefit of all, is a material structural change to the superannuation system. Instead of being an individual's savings for their retirement, it will be akin to taxation to fund an age pension.

2. "The focus on delivering income makes clear that the purpose of superannuation is not for minimising tax on wealth accumulation ….". The phrase doesn't make sense.

   If superannuation is not wealth accumulation, what is it?

   If superannuation is not for minimising tax, why did the Government set the tax rate below the tax rate that applies to other savings?

   Australian's have been told from the outset of the compulsory superannuation system, that in lieu of a pay increase that they could take home to look after themselves and their family, a percentage of their income would go into their superannuation account. They were always free to add more e.g. to 'salary sacrifice' and for many years they have been free to choose their superannuation provider. It was their money that went in, and if it didn't go in, they could pursue their employer to ensure it did go in. In short superannuation is a 50year 'wealth accumulation' plan. If your balance goes from ZERO to $766,000, you have accumulated wealth and what's more, the only reason for agreeing to the forced savings plan in the first place, is because the Government agreed to reduce the tax on wealth accumulation in superannuation.

   No-one using superannuation to save for their retirement is minimising tax, they are paying the full rate of tax that the Government has set on savings that the individual has contributed and agreed not to touch until they retire. Saving for retirement is wealth accumulation and the tax rate on those savings has been set by the Government and the Government can and has changed the rate of tax on many occasions. The deal has always been, the worker takes less home every pay and they forego access to their savings, often for decades, until they meet the 'conditions of release' (e.g. over 60 and retired) and the Government agrees to minimise the tax.

3. "The focus on delivering income makes clear that the purpose of superannuation is not for " …enabling retirees to leave tax-effective bequests." This raises several questions.
   a. Firstly, superannuation is the ONLY asset in Australia that is still subject to a Death Tax, when the beneficiary is an Australian taxpaying resident. To illustrate, if your superannuation savings have solely come from SGC payments (Superannuation Guarantee Contributions) and you die without a spouse and or tax dependents e.g. you are 30 and not in a relationship and have no children, or 80 and your spouse has pre-deceased you and all of your children now have their own children, then the Government will take 15% of your superannuation savings as a Death Tax. So ironically, for many Australians, superannuation is the least tax-effective place from which to leave a

bequest.

b. Secondly, if a 15% death tax is seen as 'tax-effective' is the proposal to increase the tax rate, or is the proposal to apply the 15% death tax to all superannuation savings not just SGC savings?

c. Thirdly, if it is not for the retiree to make the bequest then who will? Is the proposal to abolish the ability for members to be able to direct Trustees what is to happen with their savings when they die. Is the proposal that death benefits will be abolished?

4. Reading the words **'Deliver income'** in the context of the definition for the words **'Preserve Savings'** would appear to exclude the ability to draw a lump sum(s). Confining the purpose to 'income in retirement', even with the caveat of 'apart from exceptional circumstances' and implicitly stating that it is not an individual's savings that they can use, as and when they see fit, is a material degradation of current freedoms. Everybody's life is different. Some approach retirement in fine health and are likely to live for decades, while others have had to battle the whole way and that retirement nest egg has always been their opportunity to do something special with the time they have left.

   Offering an income-only, annuity style product, 30 years ago, may have been a reasonable strategy at the time. Arguably financial literacy was lower, and the population only had limited access to financial markets and the information they needed to make decisions. But in today's digitally connected economy, millions of Australians have a DIY, online saving and investment account through which they can trade everything from ordinary shares through to highly leveraged exotic securities. Add to this the wave of baby-boomers who have invested in residential real estate and the income-only, annuity style product of 30years ago, has become the marginal choice often for the more vulnerable and disengaged investor. Australians are educated, can access information on almost any investment topic and generally have a good idea of how they want to save and use their savings, once they reach retirement. If this includes repaying debt, who are we to say they can't.

The word **'Dignified'** as defined[iii] in the consultation paper;

*"**'Dignified'** denotes the importance of financial security and wellbeing in retirement but recognises that this does not necessarily equate to the same level of income in retirement for all Australians. This is a qualitative measure, that will require interpretation and may change over time to reflect society's standards. According to the Cambridge Dictionary, 'dignity' means "the importance and value that a person has, that makes other people respect them or makes them respect themselves". When used in the context of the objective, 'dignified' recognises that individuals deserve a high-quality standard of living in retirement, as served by both the superannuation system and government support. Superannuation has played an important role in combatting poverty in old age and lifting retirement standards. It has helped Australians navigate the complexity of very long-term decision-making through regular savings through their working life."*

1. The section makes the comment, that "'dignified' recognises that individuals deserve a high-quality standard of living in retirement, as served by both the superannuation system and government support."

   This phrase raises several questions. Everyone may want a high-quality standard of living in retirement, but if you want that, you will need to work for it, save for it and invest for it, it is not a right, nor is it an entitlement and taxpayers cannot afford to fund a 'high-quality' standard of living for all retirees.

   There is a material difference between funding a safety net and funding a 'high-quality' standard of living. Does the word 'dignified' mean the government will appropriate individual superannuation savings to meet the cost of this proposed, qualitative, "high-quality standard of living in retirement, that is served by both the superannuation system and government support." We should also add that all 'government support' is taxpayer funded, and all taxpayers have superannuation, we are one and the same.

   Is the Government proposing to access the superannuation system to support this; 'deserved high-quality standard of living in retirement'?

2. The next phrase is an assertion that "Superannuation has played an important role in combatting poverty in old age". We agree that savings do combat poverty and for the last 30 years, superannuation has been the most tax effective place to accumulate wealth and thereby combat poverty.

   But it is the act of saving that combats poverty, not superannuation. Superannuation is simply a legal construct that was designed to enforce compulsory savings in return for a reduced tax rate. So as mentioned under the phrase **'Preserve Savings'** the Government should look at whether a person's superannuation savings could have been used to prevent their poverty before they reached 'old age', instead of forcing them to wait until their 'old age' to be able to access their superannuation to combat their poverty.

If **'Dignified'** can be a qualitative term, then surely Poverty can be a qualitative term, and if a high standard of living in retirement can be proposed as a purpose for super, why not a purpose like 'no-one shall live in poverty while they have superannuation savings that they can draw on pre-retirement'.

3. Lastly, under the rationale for the word 'dignified' the following statement is made about superannuation; "It has helped Australians navigate the complexity of very long-term decision-making through regular savings through their working life." If the meaning of 'helped', is that it was compulsory and you had no choice, you couldn't access it until you retiree, and there was a reduced tax rate as a result, then that is true, it did help.

   It may not have always been the case but today, members can choose their superannuation provider, investment options and insurance, and many also own investment properties and have DIY, online broking accounts. So, if members are able make all these choices, then presumably that is because they can and do make longer-term decision for their regular savings. What's more, most Australians are able undertake other long-term decision-making, such as having a long-term career or running a small business for decades, buying a house and raising a family. We don't dispute that making it compulsory has helped, as has the minimised taxation but in so many ways, Australians are more than capable of navigating the complexity of long-term decision-making and regular savings.

The word **'Equitable'** as defined[iv] in the consultation paper;

*"As detailed by the Retirement Income Review, **'equitable'** captures the importance of a system that delivers similar outcomes to people in similar situations and targets support to those most in need."*

1. What is a 'similar situation'? Is it the same; pre-retirement income, family situation, career, investment strategy. What are you intending to compare in order to determine that there should be similar outcomes?

   Is this simply a tautology? Two people saving the same amount of money, at the same time and investing into the same thing, will get the same result?

   Or is there another purpose, like everyone who meets a certain description, as defined by the government, will receive a certain outcome, regardless of the choices and sacrifices they have made, and the pool of superannuation savings will be used to meet this government decree?

2. We concur that the "system" should "target support to those most in need" which is why we question the proposed definition of **'Preserve Savings'** which will limit an individual's access to their super during their working life, even when that access could help them step out of a 'poverty-trap', an abusive relationship or some other dire situation. Often just having a little bit of financial freedom, like an extra 10% to 12% in your take home pay, can provide the surplus an individual needs for education, transportation and accommodation without having to turn to the Government for taxpayer funded support. They can retain their dignity without being beholden to bureaucracy and gain control of their destiny.

3. Can we believe there truly can be an equitable superannuation environment when we have different schemes and different SG percentage rates available depending on whether a person works in the private sector, the public sector or as a high-ranking official such as a judge or magistrate. Until fairness is established across the board, which would entail removing schemes such as constitutionally protected funds, can anyone really argue for "an equitable position … that delivers similar outcomes to people?

The word **'Sustainable'** as defined[v] in the consultation paper;

*"**'Sustainable'** signifies that the system should be robust to demographic, economic and social change, and should be cost-effective for taxpayers in achieving retirement outcomes. While all Australians can save for their desired lifestyle in retirement, this outcome is influenced by personal circumstances and expectations, and is ultimately constrained by the need for equity and sustainability in the system. Beyond a certain level of income, additional Government support through tax concessions is not necessary or appropriate."*

1. The phrase “cost-effective for taxpayers, in achieving retirement outcomes” almost implies that there is a difference between the ‘taxpayer’ and the person benefiting from the ‘retirement outcome’, when in fact they are one and the same person. All workers are taxpayers, and all workers have superannuation, and all workers will want to retire. So if a worker pays less tax today on their savings, and less tax tomorrow on their investment earnings, all so they can be financially independent in their retirement, then it strikes us as being very sustainable. The real question of sustainability is whether the compulsory saving rate of 12% is appropriate. Does the SGC rate appropriately balance a person’s ‘working-life’ goals with their ‘retired-life’ goals?

2. If a 15% tax rate can deliver higher savings for workers, more capital for investment & jobs, and higher taxes for Government, over a 50 year retirement savings plan, then arguably it is sustainable.

   True in the early years workers, that is the tax-payer, have had to take home less and live on less and the Government has collected less tax from the worker, but in time, these sacrifices have been rewarded from the bounty that the investment into the Australian economy has created.

3. The Government must balance, income tax policy, with consumption tax policy, with investment tax policy, with corporate tax policy, with a raft of duties, excises, royalties and other taxes, which are taking over $600billion a year from taxpayers. All have their place and all have very different impacts on the economy, today and for decades into the future.

   It is a simple fact, that lower profits = lower returns = less in retirement, while higher profits = higher returns = more in retirement. But sustainable investment returns can only come from a strong, competitive and vibrant economy. And a strong, competitive and vibrant economy is built on a strong society, which is built on a set of core values, like; universal education and healthcare, law and order, border security and a plethora of other taxpayer funded, Government administered, services. Taxpayer funded, Government administered services, have been and will always be, an essential element in Australia’s long-term success. This is not an argument for lower tax, but rather an argument for the right tax for the right purpose. Taxes do impact behaviours, particularly where the taxpayer has choices and when it comes to investment, those choices will influence the direction of the Australian economy.

The words **‘government support’** as defined[vi] in the consultation paper;

*“While many Australians rely on government support as a supplement to their superannuation savings to achieve a dignified retirement, not every Australian will draw upon government support. The phrase **‘alongside government support’** aims to capture the importance of government payments or policies that act as a substitute or complement to superannuation, recognising the cohesive interaction with superannuation savings. The term **‘government support’** intends to encapsulate the broad range of supports available to retirees, including the Age Pension, Commonwealth Rent Assistance, and the Home Equity Access Scheme.”*

We would simply make the observation that the superannuation system is a 40 to 50 year savings strategy and the current SGC system has only been going for 30 years.

To illustrate[vii].
If you could save $10,000 a year at a compound rate of return of 7% p.a.;

1. In 30 years, you would have $944,000.
   (we note the SGC system is only 30 years old, so in a relative sense this is where the system is at today, albeit for most Australian’s saving $10,000, 30 years ago would have been a lot of money, given the average income was around $30,000 at the time. The point of the illustration is the value of compounding and time, not the absolute amount of money.)

2. In ten years’ time, on the 40th anniversary of the SGC system, this $10,000 a year savings plan invested at 7% p.a. after tax, will have more than doubled, to $1,966,000, and

3. Ten years after that, as the SGC system matures, that is after 50 years of saving $10,000 a year, and successfully investing at 7%p.a. after tax, compounded and you will have $4,065,000.

In other words, over the next 20 years, as we approach the 50th anniversary of the launch of the SGC superannuation system in Australia, more and more Australians will attain financial independence and fewer and fewer Australians will need to look to taxpayer funded, Government administered, support.

We should also add that prior to the SGC system, taxpayer funded, Government administered support was the plan for the majority of Australians. So along with the introduction of a 40 to 50 year retirement savings strategy, it was going to be essential to retain the taxpayer funded, Government administered, support structures for at least another 40 to 50 years.

To illustrate, year 1 of the SGC system and everyone has saved 5% of their salary (less tax). Is that going to meet anyone's retirement needs? Year 2 you will have saved 10% of your salary (less tax) and so on. In fact, it typically takes 6 years of SGC savings for your super balance to actually 'recover' the contributions tax. To illustrate, if you can save $10,000 per year less 15% contributions tax and invest at a 7%p.a., after tax return, then over six years you will have saved $60,000, paid $9,000 in contributions tax and your super balance will be worth $60,803.

It is only in the 13th year, that your annual investment returns will begin to exceed your $10,000 a year in savings. In the 20th year, your investment returns will be double what you are saving and if the 30th year, your annual investment return will be 5 times larger than what you are saving. But unfortunately, even after 30 years a SGC savings, earning an average 7% p.a. after tax, you will only have about a quarter of what you need to be self-sufficient in retirement. In the following ten years, your savings will hopefully double, but it is the stretch between the 40th and 50th year that the vast majority of savers will achieve financial independence.

Certainly, some will achieve it well before this stage and others will never make it but for everyone who can work and save 12% of their income for 40 years plus, they will be able to retire on at least 50% of their pre-retirement, pre-tax, average income. Of course, 50% may sound low but if you consider the Government is typically taking 30% of your pre-tax income, and during your working life you have had to save for and pay for some significant assets like a home *(call that 20% of your pre-tax income used to buy assets you won't need to replace in retirement)* then 50% of your average pre-tax income is going to be close what you were living on, pre-retirement.

For someone currently earning an average income in Australia, this would translate to having between $200,000 and $300,000[viii] in super at the age of 50. It is still well short of its final goal, but if you can continue working and saving *(potentially topping up the SGC savings when investment returns are low)*, and the economy remains strong *(you will need a strong economy to underpin strong profits, to underpin sustainable growth and reliable dividends to deliver sustainable investment returns)* and the tax rates don't change, then ten years from now, when you are 60, your savings should be approaching $700,000. In that last five to ten years, between 65 and 70, with your ongoing savings and assuming a strong economy and investment returns, your super should be around $1.5million. Maybe you will need more, maybe you will need less, but a combination of SGC, plus extra savings, plus compounding returns of between 7% and 10% after fees and after tax, for 20 years will turn $300,000 into $1.5million.

So yes, taxpayer funded, Government administered support has been essential for many Australians over the last 30 years and will continue to be important throughout their retirement. But the closer we get to the 50th anniversary of the SGC system, the fewer and fewer people who will be entering retirement needing taxpayer funded, Government administered support, to meet their basic needs.

In short, the SGC system is working. Australians are accumulating wealth. The economy is stronger and the Government is collecting more tax. The long-term need for taxpayer funded, Government administered support should be in structural decline.

Question 3a. Is the proposed approach to enshrining the objective in legislation appropriate?

We are concerned the intent of the 'objective of superannuation' has been lost in this proposal. Whilst we agree with the argument that the provision of income in retirement is an important objective of the superannuation system, it should also include sufficient flexibility on how benefits can be accessed so that retirees can truly retire 'with dignity and independence' and retrain ownership of their lifetime savings.

In that regard, we support income in retirement as an important purpose of superannuation, however, we also support the need for flexibility in relation to (i) the form in which benefits are taken e.g. lump sums, and (ii) the timing around when benefits can be taken particularly in times of financial hardship.

Question 3b. Are there any alternative ways the objective could be enshrined?

The current objective enshrined in s62 of the SIS Act is effective and appropriate and there is no need to change it.

Question 4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?

If by alternative, you mean nothing changes, then that will greatly reduce costs and uncertainty and retain Australia's trust in the compulsory superannuation system.

Where legislative and regulatory changes are going to be made, by any Australian Government, sufficient time should be provided for Australians to be able to appropriately plan for those changes.

Superannuation is a long-term strategy so if you are going to change the rules, most people will need a long-time to be able to adjust their strategy for the change. Sure, if you are 20 years old, the rules can change and you will have 50 years to adjust your strategy, maybe by saving an extra 1% or 2% a year. But if you are 50, with only 15 – 20 years to retirement you may have to save an additional 10% to 15% a year, and if you have other commitments; a family, a mortgage, some health challenges; it may simply be too late.

Long-term savings strategies, like superannuation, need stable policy settings that are fiscally, economically and socially sustainable .

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Appendix

Question 1 – Tax Analysis

	Superannuation Savings				Outside-super Strategy			
year	Open	Return 10%	super tax	Net return	Open	Return 10%	tax + medicare	Net return
1	$12,977	$1,298	-$195	$1,103	$10,000	$1,000	-$345	$655
2	$14,080	$1,408	-$211	$1,197	$10,655	$1,066	-$368	$698
3	$15,277	$1,528	-$229	$1,299	$11,353	$1,135	-$392	$744
4	$16,576	$1,658	-$249	$1,409	$12,097	$1,210	-$417	$792
5	$17,984	$1,798	-$270	$1,529	$12,889	$1,289	-$445	$844
6	$19,513	$1,951	-$293	$1,659	$13,733	$1,373	-$474	$900
7	$21,172	$2,117	-$318	$1,800	$14,633	$1,463	-$505	$958
8	$22,971	$2,297	-$345	$1,953	$15,591	$1,559	-$538	$1,021
9	$24,924	$2,492	-$374	$2,119	$16,612	$1,661	-$573	$1,088
10	$27,042	$2,704	-$406	$2,299	$17,700	$1,770	-$611	$1,159
11	$29,341	$2,934	-$440	$2,494	$18,860	$1,886	-$651	$1,235
12	$31,835	$3,183	-$478	$2,706	$20,095	$2,009	-$693	$1,316
13	$34,541	$3,454	-$518	$2,936	$21,411	$2,141	-$739	$1,402
14	$37,477	$3,748	-$562	$3,186	$22,814	$2,281	-$787	$1,494
15	$40,662	$4,066	-$610	$3,456	$24,308	$2,431	-$839	$1,592
16	$44,119	$4,412	-$662	$3,750	$25,900	$2,590	-$894	$1,696
17	$47,869	$4,787	-$718	$4,069	$27,597	$2,760	-$952	$1,808
18	$51,938	$5,194	-$779	$4,415	$29,404	$2,940	-$1,014	$1,926
19	$56,352	$5,635	-$845	$4,790	$31,330	$3,133	-$1,081	$2,052
20	$61,142	$6,114	-$917	$5,197	$33,382	$3,338	-$1,152	$2,187
21	$66,340	$6,634	-$995	$5,639	$35,569	$3,557	-$1,227	$2,330
22	$71,978	$7,198	-$1,080	$6,118	$37,899	$3,790	-$1,307	$2,482
23	$78,097	$7,810	-$1,171	$6,638	$40,381	$4,038	-$1,393	$2,645
24	$84,735	$8,473	-$1,271	$7,202	$43,026	$4,303	-$1,484	$2,818
25	$91,937	$9,194	-$1,379	$7,815	$45,844	$4,584	-$1,582	$3,003
26	$99,752	$9,975	-$1,496	$8,479	$48,847	$4,885	-$1,685	$3,199
27	$108,231	$10,823	-$1,623	$9,200	$52,046	$5,205	-$1,796	$3,409
28	$117,430	$11,743	-$1,761	$9,982	$55,455	$5,546	-$1,913	$3,632
29	$127,412	$12,741	-$1,911	$10,830	$59,088	$5,909	-$2,039	$3,870
30	$138,242	$13,824	-$2,074	$11,751	$62,958	$6,296	-$2,172	$4,124
31	$149,993	$14,999	-$2,250	$12,749	$67,082	$6,708	-$2,314	$4,394
32	$162,742	$16,274	-$2,441	$13,833	$71,475	$7,148	-$2,466	$4,682
33	$176,575	$17,658	-$2,649	$15,009	$76,157	$7,616	-$2,627	$4,988
34	$191,584	$19,158	-$2,874	$16,285	$81,145	$8,115	-$2,800	$5,315
35	$207,869	$20,787	-$3,118	$17,669	$86,460	$8,646	-$2,983	$5,663
36	$225,537	$22,554	-$3,383	$19,171	$92,124	$9,212	-$3,178	$6,034

37	$244,708	$24,471	-$3,671	$20,800	$98,158	$9,816	-$3,386	$6,429
38	$265,508	$26,551	-$3,983	$22,568	$104,587	$10,459	-$3,608	$6,850
39	$288,076	$28,808	-$4,321	$24,486	$111,437	$11,144	-$3,845	$7,299
40	$312,563	$31,256	-$4,688	$26,568	$118,737	$11,874	-$4,096	$7,777
41	$339,131	$33,913	-$5,087	$28,826	$126,514	$12,651	-$4,365	$8,287
42	$367,957	$36,796	-$5,519	$31,276	$134,801	$13,480	-$4,651	$8,829
43	$399,233	$39,923	-$5,988	$33,935	$143,630	$14,363	-$4,955	$9,408
44	$433,168	$43,317	-$6,498	$36,819	$153,038	$15,304	-$5,280	$10,024
45	$469,987	$46,999	-$7,050	$39,949	$163,062	$16,306	-$5,626	$10,681
46	$509,936	$50,994	-$7,649	$43,345	$173,742	$17,374	-$5,994	$11,380
47	$553,281	$55,328	-$8,299	$47,029	$185,122	$18,512	-$6,387	$12,126
48	$600,310	$60,031	-$9,005	$51,026	$197,248	$19,725	-$6,805	$12,920
49	$651,336	$65,134	-$9,770	$55,364	$210,168	$21,017	-$7,251	$13,766
50	$706,700	$70,670	-$10,600	$60,069	$223,934	$22,393	-$7,726	$14,668
	Closing balance		**Total tax collected**		**Closing balance**		**Total tax collected**	
	$766,769		**-$135,312**		**$238,601**		**-$125,675**	

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See the foot notes for all of the assumptions.