



Response to The Treasury

Legislating the objective of superannuation

Consultation paper

Produced by mSmart

Questions and comments should be addressed to:

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Objectives

Introduction

Many people find the superannuation system to be complex, and finding relevant and affordable information on possible retirement outcomes is too hard. Our company *mSmart* solves this problem with a simple to use web app. The app produces a printed report that is emailed to the client. In this we show the likely range of retirement outcomes. The effects of many features of the superannuation system that make it complex to understand can be easily seen. For example, some features we model are: gaps in paid employment in the accumulation phase; different retirement dates for a couple; reverse mortgages; and wanting a lump sum at an advanced age for moving into aged care.

This report suits people involved in a wide range of roles in the superannuation system. Individuals have unlimited access to our product for a subscription of \$85 p.a. Financial planners and other professionals offering advice can access our product with a corporate subscription.

The current product is available to the public at www.mProjections.com.au. Should Treasury officials wish to have a demonstration please contact Dr Frank Ashe.

We are continually upgrading our products to provide more analyses and to improve the analyses already provided.

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Consultation requirements

The Treasury consultation paper is seeking feedback on the following proposed objective:

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

***Preserve savings:** restricts access to superannuation savings for a person's retirement only.*

***Deliver income:** emphasises the principle of superannuation – to provide income in retirement.*

***Dignified:** denotes the importance of financial security and wellbeing in retirement.*

Government support: intends to encapsulate and highlight the superannuation system's interaction with the Age Pension pillar, as well as other government support.

Equitable and sustainable: signifies that the system should provide similar outcomes for people in similar circumstances and government support should be targeted to those in need. Superannuation also needs to fit within the broader fiscal strategy.

Consultation questions

1. What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?
2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?
3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?
4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?

Detailed response

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

Clarify objectives

There are currently many opinions as to the purpose of the superannuation system. The main practical benefit of the legislation will be to reduce the number of these opinions that can be validly held. Of course, this does not stop those invalid opinions still being put forward, but it does provide a more sound base for push-back.

It is important to ensure that a large consensus is obtained for the legislated objectives. Calling for submissions is an important part of the much-needed debate on the subject but is not enough by itself.

Public discussion

Australia has not had a public, wide-ranging, clear, all-encompassing, robust discussion on the purpose of superannuation since its introduction. Different forums¹ have discussed aspects of the superannuation system but this has not led to a suitable public discussion.

One practical benefit that could come out of this process for legislation is that it could be the start of a much more public debate. This would only be effective if the debate was not excessively polarised. Whether such an outcome is possible remains to be seen.

Of course, the risk is that the discussion would be overtaken by bad faith actors as has happened with previous, and current, debates on changes to the system.

¹ See for example The Retirement Income Review (Callaghan, Ralston and Kay 2020)

Broader education

Another advantage of this legislative move is that the final wording of the legislated objective could be the beginning of a broader move by government, in concert with stakeholders, to increase the public's level of understanding of the superannuation system. This would tie in with the previous point.

Trustee and stakeholder response

The drafting principles behind the legislation should not lead to any direct response from trustees' regarding their fiduciary duties, or other stakeholders.

One possible indirect effect may be from confusion by trustees on the use of phrases such as "equitable and sustainable". This could be confused with the terminology of ESG investing – environmental, social, and governance principles. *Equitable* and *sustainable* have different, but related, meanings in this space and trustees may feel that more of their superannuation investments should be directed into ESG sectors.

Appropriate communication with trustees should mitigate this risk.

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

The proposed objective agrees with our understanding of the broad objectives of the superannuation system. One large advantage of the current proposal will be to reduce the range of opinion that currently exists.

Preserve savings

The title of this section is very misleading, it would be better described as *single purpose*. Other regulatory bodies such as APRA (prudential supervision), ATO (compliance with tax legislation), and ASIC (compliance with investment legislation) work to preserve the savings of superannuation members.

We agree with the objective that the single purpose of the superannuation system should be for retirement spending.

Deliver income

Unfortunately, the term *income* has many meanings in colloquial English, and even in the restricted terms of finance. Many readers of this term will consider it to mean the income derived from investments via dividends, rent, and interest, without touching their capital.

We have come across this difficulty in our mProjections product. This has been mitigated by adopting a few ways of reducing our usage of the term *income*, though none of them have the shortness of that simple but ambiguous word.

The objective of the superannuation system is to provide a spending level in retirement through investment income and regular sale of investments.

Dignified

We agree with the rationale provided in the Consultation document: *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.²

However, as we discuss below, deserving a high quality standard of living has important implications on the objective of *equity*.

One area falling under the rubric of government support that is essential for a dignified retirement is the provision of aged care later in life. The Aged Care Royal Commission³ identified a number of systemic problems, as an example, the first two of many are:

- *First, too many older people are not getting the Home Care Package they need at the time and level they need it.*
- *Second, the amount funded for Home Care Packages is insufficient to meet the care needs of many.*

Dignity should be obtainable at all stages of retirement, and the legislation should make that clear.

Government support

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 agree with this description of the type income supports that should be available to retirees to help with a dignified retirement.

But this description of what is meant by government support does not include the full gamut of support that the government provides, as it neglects to directly mention the large tax incentives that are provided during the accumulation phase and the decumulation. We do note that there is indirect mention of the tax concessions on page 11 of the Consultation Paper *Beyond a certain level of income, additional Government support through tax concessions is not necessary or appropriate.*

This may cause confusion about whether the government considers the tax concessions to be part of the superannuation system. We believe there needs to be a broad discussion of the tax incentives in the current system, and are pleased that the Treasurer has started that discussion with the proposed reduction of the incentive on asset increases above \$3 million.

We believe that the substantial tax concessions should not be considered part of the superannuation system and the legislation should make that clear.

² Page 11 (Australian Government The Treasury 2023)

³ The italicised comments following this reference are from page 8 of Volume 1 (Pagone and Briggs 2021)

Equitable and sustainable

There is large inequity in the retirement income of the Australian population. This was adequately discussed in the Retirement Income Review⁴ and we summarise their points:

- inequitable retirement outcomes for various groups, such as women, Aboriginal and Torres Strait Islander people, those with disability, and those not covered by the SG.
- an individual's superannuation balance, and retirement income largely reflects the extent of their engagement in the workforce. For example, the gap in superannuation balances at retirement between men and women is the accumulation of economic disadvantages faced by women in working life, particularly the gap in earnings and time spent in the workforce.
- while the Age Pension helps offset inequities in retirement outcomes, the design of superannuation tax concessions increases inequality in the system.

Further, while the adequacy of the Age Pension is considered⁵ to be suitable for most retirees, there are significant groups of people for whom it is not adequate, such as many people renting their living accommodation in the private market. Combined with the inadequate provision of Aged Care it shows that the current system does not fit what many people, and the Consultation Document, would consider to be an equitable outcome.

To be considered more equitable, which includes *target[ing] support to those most in need*⁶, these current gaps need to be addressed by the government at the time of legislation. Not to do so may undermine the effect of the legislation.

Concerning sustainability, we have confidence that the current system with removal of the most egregious unequal facets will prove sustainable over the foreseeable future.

Unstated objectives

Compulsory savings

One important objective of the superannuation system that is not mentioned by the legislation is its compulsory nature. If this compulsion was not there, then the following observation⁷ would not be able to be made: *Superannuation is an increasingly important source of capital in our economy and the significant scale of Australia's superannuation system contributes to the strength of our financial markets through capital deepening.*

Workers do not have the option of joining or not. This makes it more important to ensure that the goal of an equitable system is not only legislated, but is shown to be an active goal of the government.

⁴ Summarised on pages 19, 20 of (Callaghan, Ralston and Kay 2020)

⁵ (Callaghan, Ralston and Kay 2020)

⁶ Page 11 (Australian Government The Treasury 2023)

⁷ Page 4 (Australian Government The Treasury 2023)

3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?

We agree with the proposal of legislating the objective, which will⁸ *ensure that future policy changes can be anchored to the purpose*. One hopes that this ‘anchoring’ will be achieved through greater accountability and transparency in policy development.

We have no comment on alternative methods of promoting the objective.

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

We have no comment on alternative accountability mechanisms.

⁸ Page 10 (Australian Government The Treasury 2023)

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