

31 March 2023

# Legislating the Objective of Superannuation Submission to Treasury

## ABOUT US

Super Consumers Australia (Super Consumers), formerly known as the Superannuation Consumers' Centre, is an independent, not-for-profit consumer organisation formed in 2013. Super Consumers was first funded in 2018. We work to advance and protect the interests of low and middle income people in the Australian superannuation system.

During its start up phase Super Consumers has partnered with CHOICE to deliver support services. CHOICE is the leading consumer advocate in Australia, as an independent voice, ensuring consumers get a fair go.

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## Introduction

The retirement income system should work for all Australians.

We support the introduction of a new legislated objective of super. An objective will give the Australian public, government, regulators and super industry a standard to assess whether the system is delivering good outcomes for all Australians. This being said, the definition proposed in the consultation paper should be tweaked to emphasise financial wellbeing and cohesion in retirement to ensure that objective is measurable and relevant to the needs of consumers.

The super system is designed on the basis that people should draw down their savings to support them in retirement.<sup>1</sup> However, evidence shows that many retirees do not have the confidence to spend down their super savings through retirement, and instead restrict their spending, in some cases leaving sizeable super bequests.<sup>2 3</sup> This was never the intent of the system. At least in part, this ‘nest egg’ saving attitude has been encouraged through the availability of generous tax concessions on high super balances.<sup>4</sup> Having a purpose that puts ‘retirement income’ front and centre will direct future policy and the public’s understanding towards this important goal.

Meanwhile, people with minimal to no super and those experiencing financial stress in retirement — for example, retiree renters and those who retire involuntarily — struggle to make ends meet.<sup>5</sup> In the context of learnings from the Retirement Income Review (**RIR**) and recent government interventions to address taxation equity in the retirement system, it’s the right time to establish a consensus-based purpose of the super and the broader retirement income system. This is so successive governments can make sure these are working as intended, in the public interest and for all Australians.

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<sup>1</sup> Retirement Income Review 2020, p. 36,

<https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf>

<sup>2</sup> Asher et al 2017, ‘Age pensioner decumulation: Responses to incentives, uncertainty and family need’, in *Australian Journal of Management*, vol. 42, no. 4

<sup>3</sup> Grattan Institute 2018, *Money in Retirement: More Than Enough*,

<https://grattan.edu.au/wp-content/uploads/2018/11/912-Money-in-retirement-re-issue-1.pdf>

<sup>4</sup> Retirement Income Review 2020, op. cit.

<sup>5</sup> Super Consumers Australia 2022, *Consultative Report: Retirement Spending Levels and Savings Targets*,

<https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/62d4b629b09b0b30b6fd9410/1658107438289/Consultative%2BReport%2BRetirement%2BSavings%2BTargets.pdf>

Our submission highlights that:

- A clearly defined objective of super will strengthen policymaking and give clarity to the public, industry, and government.
- The objective of super should focus on financial wellbeing, equity, cohesion, and sustainability in addition to retirement income.
- Future retirement income policies should be assessed against the legislated purpose, and the way the system is working should be regularly examined.

### Summary of Recommendations

**Recommendation 1:** That the Federal Government legislates an objective of super.

**Recommendation 2:** That the objective of super refers to 'financial wellbeing in retirement', rather than a 'dignified retirement'.

**Recommendation 3:** That the objective of super references the need for a retirement system that is cohesive.

**Recommendation 4:** That the government considers additional equity measures to target financial support towards those who need it.

**Recommendation 5:** That the key principles in the objective of super are quantifiable.

**Recommendation 6:** That the Federal Government undertakes a regular review of the super system to assess how it is delivering on its objective.

**Recommendation 7:** That the economic impacts of future retirement income policy proposals are modelled and published, so they can be tested against the objective of super.

## Discussion questions

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

The objective will provide clarity to the public, governments and industry

As the consultation paper indicates, multiple reviews and stakeholders have called for a new agreed-upon objective of the retirement income system. This is for a number of reasons, including to:

- Frame policymaking,
- Help people understand what super is for, and
- Provide a tool to measure how the retirement income system is working.

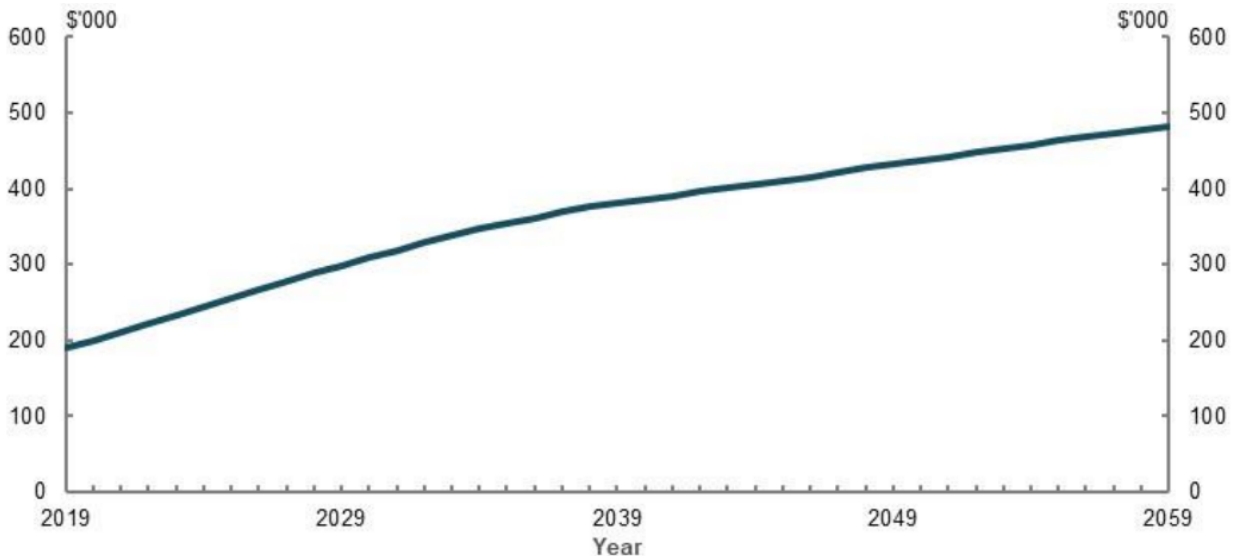
We agree that a legislated objective of super will help address complexity and confusion about what super is for, and how it fits into our broader retirement income system. By developing a consensus-based standard for the super system, the objective will help direct policymakers' attention to assessing retirement outcomes, and addressing issues that prevent good retirement outcomes.

For example, the RIR found that many retirees are able to replace their pre-retirement income at an adequate rate, and yet they often pass away with the majority of the wealth they held when they first retired.<sup>6</sup>

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<sup>6</sup> Retirement Income Review 2020, op. cit.

**Figure 1: Projected average superannuation death benefits for population aged 65 and over**



Note: Values are in 2019 dollars, deflated by CPI. Source: Retirement Income Review 2020, p. 435

This trend is forecast to continue.<sup>7</sup> Due to generous super tax concessions, growing super bequests result in huge amounts of government revenue forgone, which could have otherwise been directed to support those who need it. Meanwhile, there is significant evidence that shows people who face structural barriers to economic participation are left worse off in retirement, including:

- **Retiree renters:** Super Consumers' Retirement Savings Targets found that a single person on a low income aged 65-69 who rents in retirement will need to save 110% more than homeowners, in order to maintain a similar standard of living.<sup>8</sup>
- **People who retire involuntarily:** The RIR found that nearly half of people that retire at age 60-64 do so involuntarily for caring, health or job-related reasons, and that these people are at a higher risk of financial stress than voluntary retirees.<sup>9</sup>
- **Women:** Inequality between men and women's super balances and the structural reasons underlying this are well-documented and remain largely unaddressed.<sup>10 11</sup>

<sup>7</sup> Figure 1

<sup>8</sup> This calculation is based on spending levels in the 30th percentile and has been adjusted for inflation. Super Consumers Australia 2022, *Retirement Savings Targets Feedback Report*, p. 9, [https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/62fc8e6a3ec0f0576bf633e5/1660718700307/Retirement+Targets+feedback+report\\_FINAL.pdf](https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/62fc8e6a3ec0f0576bf633e5/1660718700307/Retirement+Targets+feedback+report_FINAL.pdf)

<sup>9</sup> Retirement Income Review 2020, p. 33

<sup>10</sup> Retirement Income Review 2020

<sup>11</sup> Centre for Future Work 2023, *The Times They Aren't A-Changin' (enough)*, <https://australiainstitute.org.au/wp-content/uploads/2023/03/Centre-for-Future-Work-Gender-Pay-Gap-WE-B.pdf>

- **First Nations people:** Many First Nations people experience lower superannuation balances and barriers navigating super throughout their working lives, often due to mandatory participation in a retirement income system that is not designed for their needs.<sup>12 13</sup>
- **People with disability:** Submissions to the RIR from disability advocates highlighted that working-life inequity compounds with additional disability-related expenses to create financial stress for people with disability who are retired.<sup>14</sup>

A new objective sets a standard for the super system and helps measure the retirement outcomes that the system produces.

### Recommendation:

1. That the Federal Government legislates an objective of super.

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

The proposed objective meets our understanding of the purpose of super to a certain extent. However, to ensure the objective is measurable and based on the principles identified by the RIR, we propose alternative wording:

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

### Preserving savings for retirement income

We agree with the Government that the purpose of super is ultimately to preserve savings for retirement, which was the original superannuation policy rationale.<sup>15</sup> Preserving savings refers to the concept that contributions to super should not be accessed unless for the purpose of income in retirement, apart from exceptional circumstances. By emphasising that super is intended to support this end, the proposed objective makes it clear that super is not intended for

<sup>12</sup> Retirement Income Review 2020

<sup>13</sup> ASIC 2023, *Indigenous Financial Services Framework*, <https://download.asic.gov.au/media/35wn0xyp/asic-indigenous-financial-services-framework-published-february-2023.pdf>

<sup>14</sup> Retirement Income Review 2020

<sup>15</sup> Dawkins, J & Treasury 1992, *Security in Retirement: Planning for tomorrow, today*, Australian Government Publishing Service, Canberra.

wealth accumulation generally, but rather to support people meet their financial needs through the drawdown or retirement phase.

### Early access to super in exceptional circumstances

We acknowledge that there are exceptional circumstances in which a person may need to access their super before retirement. This is reflected in the consultation paper. It is fundamental that this access continues as a last resort for those in extreme financial hardship, and for those otherwise unable to meet certain expenses on compassionate grounds, as specified in the SIS Regulations.<sup>16</sup> The Explanatory Memorandum accompanying the objective should reflect and reiterate that there are certain extreme circumstances in which a person may, and is permitted to, access their super as a last resort.

### Financial wellbeing over dignity

The proposed objective refers to delivering income for a ‘dignified retirement’. The rationale provided by the consultation paper is that ‘dignified’ denotes financial security and wellbeing, but doesn’t guarantee the same level of income for all Australians. We have concerns that the term ‘dignified’ is subjective and abstract. It is difficult to define or measure, and it means different things to different people. Use of the term ‘dignified’ in this context may suggest to some that a dignified retirement relies on the accumulation of super. There are many people who do not have super for a variety of reasons; this does not mean they are not worthy of dignity or respect in retirement.

It is our view that financial wellbeing is a far more appropriate principle for the objective to rest on.

Financial wellbeing is a well-understood and researched concept. The Centre for Social Impact defines financial wellbeing as ‘when a person is able to meet expenses and has some money left over, is in control of their finances and feels financially secure, now and in the future.’<sup>17</sup> This does not suggest financial wellbeing means having the same income as someone else; instead, it is rooted in a person’s ability to securely navigate their own financial circumstances. The RIR highlighted that measuring financial wellbeing is a sound way to assess retirement outcomes.<sup>18</sup> There are a variety of quantitative and qualitative initiatives measuring financial wellbeing already in place, including in the Australian Institute of Health and Welfare’s yearly welfare

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<sup>16</sup> Superannuation Industry (Supervision) Regulations 1994 (Cth), Section 6.19A

<sup>17</sup> Centre for Social Impact 2017, *Exploring Financial Wellbeing in the Australian Context*, <https://assets.csi.edu.au/assets/research/Exploring-Financial-Wellbeing-in-the-Australian-Context-Report.pdf>

<sup>18</sup> Retirement Income Review 2020, p. 170



indicators.<sup>19</sup> Using financial wellbeing in retirement as the aspirational principle for the objective, rather than a dignified retirement, will ensure the objective is measurable and relevant.

### Recommendation:

2. That the objective of super refers to ‘financial wellbeing in retirement’, rather than a ‘dignified retirement’.

## Cohesion

Another principle for the system that the RIR put forward is cohesion: essentially, that the retirement income system should be easy for consumers to navigate.<sup>20</sup> Simplicity is equally important as equity and sustainability if the system is going to work for all Australians.

Our 2022 consumer survey found that only 20% of people aged 50-64 found the Australian system simple to understand.<sup>21</sup> In a 2020 survey of 10,000 CHOICE members, 83% of pre-retirees indicated planning for retirement was extremely to moderately complex.<sup>22</sup> Reasons provided included working out how different types of retirement income (for example, private savings and the Age Pension) fit together, and dealing with Centrelink.

The RIR found that complexity in the retirement income system leads to real consumer harm, and that this is exacerbated by lack of default retirement products to guide consumer-decision making.<sup>23</sup> For example, the RIR highlighted that complexity in the system can encourage retirees to use minimum prescribed drawdown rates as a ‘rule of thumb’ for accessing their super, rather than considering a more tailored, appropriate drawdown strategy.<sup>24</sup> Including cohesion in the objective of super reflects the importance of simplicity in generating good consumer outcomes in retirement.

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<sup>19</sup> AIHW 2021, *Financial wellbeing*, <https://www.aihw.gov.au/reports-data/indicators/australias-welfare-indicators/financialwellbeing/financial-wellbeing>

<sup>20</sup> Ibid. p. 17

<sup>21</sup> Super Consumer Pulse 2022, unpublished.

<sup>22</sup> Super Consumers Australia & CHOICE 2020, *Retirement planning is too complex, CHOICE survey reveals*, <https://www.choice.com.au/money/financial-planning-and-investing/superannuation/articles/super-consumers-australia-choice-retirement-planning-survey>

<sup>23</sup> Retirement Income Review 2020, p. 94

<sup>24</sup> Ibid, p. 445

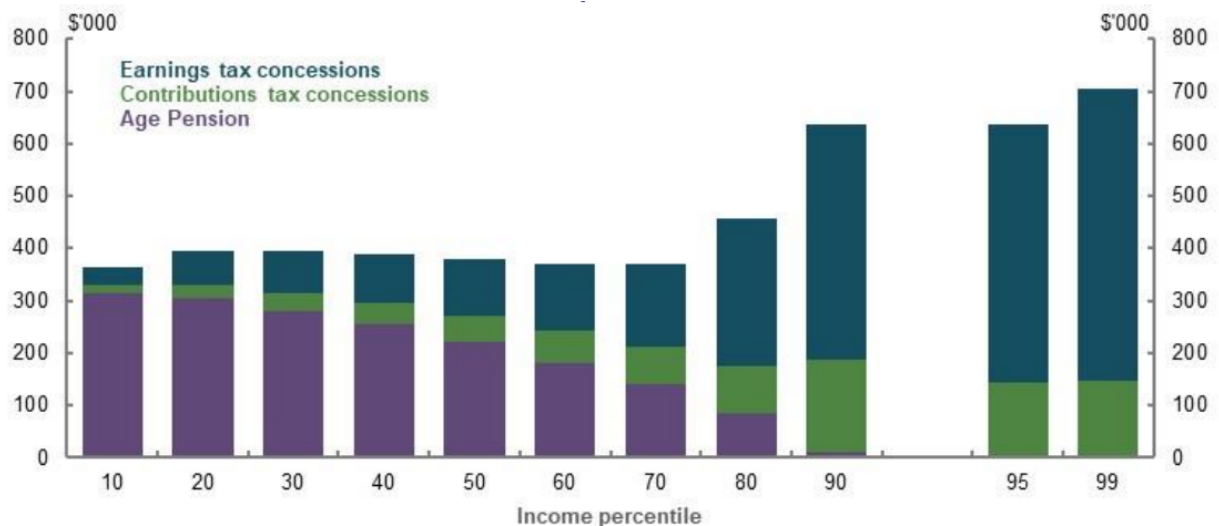
## Recommendation:

3. That the objective of super references the need for a retirement system that is cohesive.

### Equity, sustainability, and government support

Equity and government support should be reflected in the objective of super. The consultation paper defines system-level equity as ‘deliver[ing] similar outcomes to people in similar situations and target[ing] support to those most in need.’ Analysis undertaken by the RIR shows that government support has been poorly targeted to those most in need in retirement.

**Figure 2. Projected lifetime Government support provided through the retirement income system**



Notes: Values are in 2019-20 dollars using Cameo modelling and assumptions from the Retirement Income Review.  
Source: Retirement Income Review 2020, p. 247

Generous super tax concessions, which benefit those with the highest super balances the most, are estimated to cost taxpayers \$50 billion a year.<sup>25</sup> We commend the Government for already taking steps to address equity in the super system through a 30% earnings tax on super balances over \$3 million, from the 2025-26 financial year. The Federal Government has announced that this is being done in the context of growing expenditure in defence, health, aged

<sup>25</sup> Ibid.

care, and the NDIS.<sup>26</sup> The Grattan Institute estimates this tax reform will deliver an additional \$2 billion to the budget.<sup>27</sup>

Making equity and government support explicit in the objective of the system will direct policymakers to better target government support where it is needed. We have already seen this in practice with the Federal Government's recent proposed tax reforms. We urge the government to continue to consider the relationship between government support, equity, and sustainability. For example, by directing forgone revenue from generous tax concessions on high super balances towards equity mechanisms that are proven to support people that need it.

### Equity mechanisms

Urgent action is needed on addressing equity in the retirement income system; the proposed objective of super cannot be met without it. There are a range of mechanisms already available to the Federal Government to improve equity in the retirement income system. We encourage the government to focus on areas which are targeted and are demonstrated to have the biggest impact on addressing inequality, for example, addressing financial stress for people renting in retirement. Retiree renters experience significantly higher levels of financial stress compared to homeowners.<sup>28</sup> Super Consumers' Retirement Savings Targets research found that a single retiree renter on a low income aged 65-69 will need to save 110% more than homeowners, in order to maintain a similar standard of living.<sup>29</sup> The RIR similarly expressed concerns about the adequacy of current support for retiree renters, flagging that a new approach to assisting renters in retirement is needed.<sup>30</sup>

### Recommendation:

4. That the government considers additional equity measures to target financial support towards those who need it.

<sup>26</sup> Treasury 2023, *Superannuation tax breaks*, media release, <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/superannuation-tax-breaks>

<sup>27</sup> Grattan Institute, 2023, 'Chalmers takes one small step towards fairer super', available at: <https://grattan.edu.au/news/chalmers-takes-one-small-step-towards-fairer-super/>

<sup>28</sup> Retirement Income Review 2020, p. 33

<sup>29</sup> This calculation is based on spending levels in the 30th percentile and has been adjusted for inflation. Super Consumers Australia 2022, *Retirement Savings Targets Feedback Report*, p. 9, [https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/62fc8e6a3ec0f0576bf633e5/1660718700307/Retirement+Targets+feedback+report\\_FINAL.pdf](https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/62fc8e6a3ec0f0576bf633e5/1660718700307/Retirement+Targets+feedback+report_FINAL.pdf)

<sup>30</sup> Retirement Income Review 2020, p. 34

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

The objective should be used to assess how the super system is working

The objective of super needs to be quantifiable in order to have a meaningful impact on super policymaking. If there is no way for policymakers and stakeholders to test whether an idea or proposal fits within the objective of super, the objective is limited in its usefulness. The objective will be measurable if its key principles are quantifiable, like financial wellbeing rather than dignified, and clearly defined in an accompanying Explanatory Memorandum.

#### Recommendation:

5. That the key principles in the objective of super are quantifiable.

### We need a regular independent review of the super system

The goal of enshrining the objective should be to build consensus around the purpose of the super system, and focus attention on policies that deliver against that purpose. One way to do this is by establishing a regular 'soft power' mechanism to create a fact base that focuses the work of retirement income policymakers.

This can be done through establishing a regular independent review of the super system, via a recurrent Retirement Income Review, or a specific focus in the Federal Government's Intergenerational Report. A regular independent super system inquiry was a key recommendation by the Productivity Commission in 2018 and is yet to be adopted.<sup>31</sup>

A regular review of the super system, every 5 years for example, could deliver on a set terms of reference to examine how the retirement income system is working, and whether the super system is delivering on its objective. Given that the government of the day cannot bind future governments, establishing a regular review will build norms and accountability around the objective. The government should also consider drafting additional guidance, separate to any Explanatory Memorandum, to clarify how policymakers should use and interpret the objective.

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<sup>31</sup> Productivity Commission 2018, *Superannuation: Assessing Efficiency and Competitiveness*, Recommendation 29, p. 619, <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf>

### Recommendation:

6. That the Federal Government undertakes a regular review of the super system to assess how it is delivering on its objective.

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

Without adequate accountability mechanisms, there is a risk that the objective of super will not have a meaningful impact on future retirement income policy proposals.

Accompanying the legislated objective of super should be a requirement that future policy proposals impacting the retirement income system are adequately modelled, and that this modelling is published as a part of the consultation process. For example, this modelling could measure the financial impact of the proposed policy on people's retirement balances across income deciles. To illustrate, a policy proposal targeted at minimising the gender super balance gap should include economic modelling on how that gap would be practically reduced by the proposal.

This is an important accountability measure that will make it easier for stakeholders to assess the extent to which a policy is in keeping with the objective of super.

We see proposal-specific modelling as working in tandem with a regular review of the super system. The regular whole-of-system review would be a retrospective assessment of its overall health and the extent to which it is meeting its objective. As the original Retirement Income Review demonstrated, it would be agenda-setting, directing policy makers where attention is most needed. By contrast, modelling on the impacts of specific proposals would be prospective and ensure those proposals are assessed on their ability to deliver against the goals of the objective.

### Recommendation:

7. That the economic impacts of future retirement income policy proposals are modelled and published, so they can be tested against the objective of super.