

15 September 2016

Manager  
Superannuation Tax Reform  
Retirement Income Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir/Madam

**Re: AustralianSuper submission on the exposure draft of the Superannuation Reform Package**

AustralianSuper is pleased to provide a submission in relation to the above package of legislation.

AustralianSuper is one of Australia's largest superannuation funds and is run only to benefit its members. The best interests of our 2.1 million members drive our decisions. We do not pay commissions to anyone to recommend us, nor do we pay dividends to shareholders. With over \$100 billion in members' assets, our sole purpose is to assist our members achieve their best possible retirement outcomes.

AustralianSuper generally supports the comments made in the submissions of Industry Super Australia and the Australian Institute of Superannuation Trustees in relation to the superannuation reform package. This submission focuses solely on the exposure draft legislation and accompanying explanatory memorandum in relation to the primary objective of the superannuation system, and related purposes.

**Superannuation (Objective) Bill 2016 – primary objective**

The Government has determined that the primary objective of the superannuation system as being 'to provide income in retirement to substitute or supplement the age pension.'<sup>1</sup>

AustralianSuper is of the view that any objective of the 'superannuation system' should include a benchmark that is relevant to individuals in retirement, be that a dignified retirement, an adequate, modest or even comfortable retirement. AustralianSuper made a submission to this effect in the consultation leading up to this superannuation reform package.

If this fundamental outcome of the system is not mentioned, it is difficult to see how the system can be assessed as meeting its objective.

**Exposure draft Explanatory Materials to the Superannuation (Objective) Bill 2016 – subsidiary objectives ('The EM')**

We are concerned that there are now subsidiary objectives of the superannuation system as described in this explanatory memorandum. We provide comments on four of the proposed five:

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<sup>1</sup> Proposed subsection 5(1) of the exposure draft of the *Superannuation (Objective) Bill 2016*.

(i) *Facilitate consumption smoothing over the course of an individuals' life*<sup>2</sup>

We do not see why this subsidiary objective is necessary, or even consistent with the purpose of superannuation.

It assumes that all expenses incurred in post-salary life are smoothed, whereas we know they are not. Anecdotally, the following significant expenses which commonly feature in the life of retirees, are lumpy, and not smoothed expenses:

- Bonds for aged care homes
- Out of pocket expenses for serious and chronic illnesses
- Cost of home renovations (including modifications to assist independent living)
- Replacement of key items such as motor vehicles
- Funeral expenses when a spouse dies

If the purpose of this subsidiary objective is to express the contention that 'superannuation is a vehicle for individuals to fund consumption in retirement largely from working life income'<sup>3</sup> then it should be reworded to explicitly encourage/compel saving when young in order to provide for old age. As it stands it implies retirees have a smoothed consumption rate and this does not reflect the reality of expenses reasonably incurred in retirement, as per examples above.

Paragraph 1.20 of the EM should be a separate standalone subsidiary objective. It is an appropriate objective – it simply does not fit in with a subsidiary objective on consumption smoothing - it deals instead with the appropriateness of taxation concessions and why they are used in superannuation.

(ii) *Manage risks in retirement*

Paragraph 1.21 of the EM should explicitly call out the risk of outliving savings. This paragraph also serves to limit retirement risks to being product-specific risks, and does not cater for the complexity of dealing with retirement/ageing issues as a whole.

We believe allowance needs to be made for more holistic approaches to retirement that do not purport to provide a single product solution. Retirees should be able to deal with a variety of risks in different ways, for eg. Risk A is being dealt with by pension product (Solution A), and risk B is being dealt with by equity release in home (Solution B), that is, outside of superannuation.

We suggest that it is unnecessary to call out risk management as a subsidiary objective of superannuation. It is an issue to be mindful of, but not a goal in mind in having a superannuation system in the first place.

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<sup>2</sup> Paragraph 1.19 of the Exposure draft explanatory materials to the *Superannuation (Objective) Bill 2016*.

<sup>3</sup> Ibid

*(iii) Be invested in the best interests of superannuation fund members*

Whilst this subsidiary objective is consistent with paragraph 52(2)(c) and section 62 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act), it is more akin to a duty of care within a system than a purpose for its existence.

For this reason we suggest that again it is unnecessary to call this out as a subsidiary objective of the superannuation system.

*(iv) Be simple, efficient and provide safeguards*

AustralianSuper fully supports policymaking in superannuation being specifically cognisant of the needs of individuals with inconsistent work patterns, especially women.

Paragraph 1.28 requires that the system ‘provides good outcomes ... for individuals who do not make active choices about their superannuation.’

AustralianSuper believes that the system should provide good outcomes for individuals who make choices about their superannuation as well as those who don’t. After all, the same taxation concessions apply to superannuation investments made by individuals who exercise choice. Taxpayers should reasonably expect that the ‘Choice’ aspects of the superannuation system provide equally sustainable outcomes as for those who don’t choose.

That being said, simplicity and efficiency are signs of a superannuation system operating well – again, that does not make them subsidiary objectives of a superannuation system. Accordingly, we suggest that this does not need to be made a subsidiary objective of the superannuation system and that this part of the EM be dispensed with.

If you have any questions of us or would like further information please do not hesitate to contact me on 03 8648 3847 or [lduprealba@australiansuper.com](mailto:lduprealba@australiansuper.com) in the first instance.

Yours sincerely



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Head of Policy