

## **Purpose of superannuation should be to provide a reasonable income in retirement, not just to replace the Age Pension**

14 March 2016

SMSF Owners has written to the Prime Minister suggesting a broader statement of the purpose of superannuation than the one proposed by the Financial System Inquiry.

We agree with the FSI that the Government should seek broad agreement on the objective of superannuation. A bi-partisan policy approach to the purpose of superannuation would help to reduce ad hoc and revenue-driven policy changes that create uncertainty and undermine confidence in superannuation.

The FSI recommended the primary objective should be: "To provide income in retirement to substitute or supplement the Age Pension."

SMSF Owners' believe this definition is too limited and should be expanded to: "The purpose of superannuation is to encourage every Australian to be self-reliant and able to maintain a standard of living in retirement that bears a reasonable relationship to that before retirement by way of fair, equitable and efficient tax incentives that recognise the inherent bias against savings in the income tax system."

By 'fair' we mean the tax structure is appropriate and not overly generous or inadequate overall.

By 'equitable' we mean fair as between different members, in particular members on different incomes.

By 'efficient' we mean that the tax structure should maximise the outcome for members per dollar of tax concession or, conversely, maximise the tax income for Government to achieve the same desired outcome.

By 'reasonable relationship' we mean a measure known as a 'reasonable replacement rate' which is generally agreed to be 60 – 70% of pre-retirement, post-tax income.

The Age Pension is intended to be a 'safety net' for Australians who, for whatever reason, have been unable to achieve self-reliance in retirement. Therefore it would be sensible for the Government to set a target for the proportion of Australians who would need the Age Pension and expect everyone else to fund their own retirement with the help of tax incentives.

When the superannuation system is mature and stable, most Australians should not need access to the Age Pension. This will clearly take time and targets should be set to ensure progress towards this goal.

We do not accept the notion that superannuation tax incentives are a 'gift from the Government' as the Assistant Treasurer said last week.

Just because the Government doesn't tax something or lowers a tax rate, it's not a 'gift from the Government.' To assume otherwise is to believe that the Government owns all income and decides what to 'gift' to citizens rather than believing that the money people earn is theirs and the Government must justify taking some of it in tax.

In contemplating policy change, we believe the Government should follow these principles:

- Any change to superannuation should be intended to make the system more efficient and more effective – allowing more Australians to save more for the future
- The taxing of superannuation should encourage savings and give everyone the chance to secure their financial independence in retirement
- The target for each superannuation-funded pension should be 60-70% of a person's pre-retirement, post-tax income – generally accepted internationally as a reasonable target and comparable with the public sector defined benefit schemes
- If changes are to be made to contributions, a rebate system will be perceived to be more equitable and work better
- The rules around superannuation contributions should be more flexible to allow for changes in work and income circumstances
- There should be no change to dividend imputation
- There should be no adverse retrospective impact on people who have saved for their retirement under the rules to date. They have completed their side of the bargain and are not in a position to adapt to new rules
- Any changes made should be applied consistently, including to generous public sector schemes

SMSF Owners appreciates the Government's invitation to participate in the roundtable to be held in Melbourne on Friday 18 March to discuss the objective of superannuation and we will be making a submission in response to the discussion paper released on 9 March.

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