SMSF Owners' Alliance
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Superannuation purpose should be aspirational

6 April 2016

SMSF Owners has proposed to the Federal Government an aspirational definition of the purpose of superannuation:

The primary objective of the superannuation system is to give every working Australian the opportunity and encouragement to save enough so that they can fund an income in retirement that allows them to maintain to a reasonable degree their living standard after retirement.

SMSF Owners and others have been invited by the Government to put forward their suggestions for a statement on the objective of superannuation as recommended by the Financial System Inquiry (FSI) headed by David Murray. Our submission to Treasury is attached.

The FSI report said the Government should seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.

SMSF Owners fully agrees with this recommendation. If a bipartisan approach to the purpose of superannuation can be reached, it will help to minimise government 'fiddling' which undermines confidence in superannuation as a long term investment vehicle.

However, we do not agree with the FSI's proposed objective: "To provide income in retirement to substitute or supplement the Age Pension."

This is a limited and vague definition.

It implies the Age Pension should be the primary pension with the role of superannuation just to replace or supplement it, which is contrary to the concept of the three-pillars architecture of the retirement incomes system. Under this concept, superannuation should become the main way of funding retirement incomes with the Age Pension acting as a safety net for those who need it. This should be the long term goal of superannuation.

The linkage to the Age Pension also implies a 'levelling' of aspirations. In a developed society, everyone should aspire to and, via tax incentives, be provided with the means and encouragement to save enough to allow them to retire on a pension that bears a fair relationship to their income before retirement.

There is no reference to 'saving' in the FSI definition. Nor a reference to any benchmark for judging the adequacy and success of the system.

The objective we propose does not seek to place constraints on superannuation savings but sets a goal for retirement income for all Australians relative to their working income. This is generally recognised as the "reasonable replacement rate" which sets an income target in retirement of 60-70% of pre-retirement income.

The replacement rate concept is an international standard upheld by many comparable countries. In Australia it is reflected in publicly funded superannuation for politicians, public servants and the judiciary.

We believe it is a standard to which all Australians should be able to aspire, with the help of tax incentives to enable and encourage savings.

Principles

The objective should be under-pinned by the following principles:

To meet this objective, the following principles are to be applied:

a. Sufficient tax incentives are required in order to encourage each individual not to spend all of their income but to save some for their retirement;

b. The superannuation system is part of a three-pillar retirement income system (comprising the Age Pension safety net, mandatory and voluntary superannuation contributions) and that the cost of tax incentives beyond those necessary to encourage adequate savings and the cost of Age Pensions should have regard to the fiscal sustainability of the overall system;

c. For individuals to have confidence investing their savings in superannuation for many years, it must be stable with any changes limited, justified in terms of this objective and, in particular, not retrospective nor adversely impacting those who have made retirement decisions;

d. The adequacy of savings must take into account the risks borne by each individual with regard to longevity and also health, aged-care and other unpredictable costs during retirement;

e. The distribution of tax incentives must be equitable, meaning that they should generally be proportional to the income taxes paid by each individual. Any tax concession to an individual or group of individuals that is not proportional to the taxes that individual or group pays represents a transfer to or from that individual/group to another, is inequitable and must be justified.

f. Any limits on tax incentives must apply to contributions rather than investment outcomes, provide flexibility to allow for uneven income over an individual's working life

g. Any limits on tax incentives should not unreasonably constrain most taxpayers from meeting this objective;

h. Savings are to be invested in the best interests of each member and must not be subject to mandatory direction;

i. The system's structure and administrative rules are kept as simple as possible and all reasonable steps are taken to maximise competitive market efficiency in its operation so costs to savers are minimised.

Beneficial Outcomes

Whilst not objectives of superannuation, it is recognised that the following fiscal, economic and social benefits flow from the achieving the objective:

a. The fiscal cost of the nation's retirement income system is reduced as increasing reliance on self-funded superannuation reduces the burden of Age Pensions on the Government's budget;

b. The system provides very substantial capital formation through savings with a stable, long-term focus;

c. More Australians are able to look forward to their increasingly long period in retirement with confidence their savings will last and they will not become a burden on the following generation.

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