



Association of Independent Retirees (A.I.R.) Limited
Working for Australians in Retirement

Superannuation Reform Package

Public Consultation on the exposure draft legislation:

- Superannuation (Objective) Bill 2016
- Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016
- Treasury Laws Amendment (Fair and Sustainable Superannuation) Regulation 2016

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The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees.

A.I.R. works to advance and protect the interests and independent lifestyle of Australians in retirement. A.I.R. seeks to *secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.*

A.I.R. members have a clear understanding of the need for changes to allow for better management of the financial risks they face in retirement, and other issues of concern such as self-sufficiency and adequacy that impact on their capacity to have an independent and fulfilling retirement.

Following are comments and recommendations from the Association in regard to the exposure draft legislation released for public consultation:

- Draft legislation: Superannuation (Objective) Bill 2016;
- Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016; and
- Treasury Laws Amendment (Fair and Sustainable Superannuation) Regulation 2016 to implement the following five superannuation measures announced in the 2016-17 Budget:
 1. the objective of superannuation;
 2. tax deductions for personal superannuation contributions;
 3. improve superannuation balances of low income spouses;
 4. introduce a Low Income Superannuation Tax Offset (LISTO); and
 5. harmonising contribution rules for those aged 65-74.

We support and agree with the details contained in measures 2, 3, 4 and 5 of the draft legislation but we do not agree with the detail on the first measure - *the objective of superannuation* - contained in the draft legislation document and consider that this is not an adequate objective.

A.I.R. accepts the value of a broad political and community agreement to enshrine in legislation a realistic objective of superannuation and a set of measurable goals to ensure that clarity of purpose and a clear path forward. However, it is essential that the agreed objective reflects the needs of those who now and in the future will self-fund their retirement, and the need for improved and increased self-sufficiency in retirement.

As such, A.I.R. strongly believes that the primary objective of the superannuation system is **to enable Australians to be self-reliant and have a sustainable income stream in retirement that will adequately support a comfortable and active retirement lifestyle.**

The Government's current proposed objective - *to provide income in retirement to substitute or supplement the age pension* - is not a positive statement and is not based on the perspective of those currently living on or planning their retirement future funded by their superannuation. Rather, this objective reflects a Government perspective based on annual Budgets and savings measures when it should be much more ambitious. The Age Pension is one component of the retirement income system and should be acknowledged as a social safety net for those who have not been able to save enough to self-fund their retirement. By explicitly linking the defined objective of superannuation to the Age Pension and limiting tax concessions on compulsory and voluntary superannuation contributions, the Government is not encouraging Australians to aim for self-sufficiency in their retirement.

A broader definition as proposed by A.I.R. may go some way to increasing the rigour behind considerations to improve the effectiveness and efficiency of the superannuation system in the future.

On the question of intent Productivity Commissioner Angela MacRae recently stated that the aim of the superannuation system is to be able to meet its primary purpose of providing a sustainable, adequate and equitable retirement income stream which must be optimised over the lifetime of a person in retirement.

Back in 2013 the Charter Group of the Council of Superannuation Custodians set up by the Government concluded that the objectives of the Australian superannuation system are to:

- provide an adequate level of retirement income;
- relieve pressure on the Age Pension; and
- increase national savings, creating a pool of patient capital to be invested as decided by fiduciary trustees.

But now rather than expand this to better reflect the principal and incorporate the adequacy and self-sufficiency aspects the Government has decided to further simplify this previously stated with a narrow “vanilla” objective.

A recent media article clearly articulated that the problem with the objective of the superannuation in the draft legislation is that it puts superannuation and the Age Pension the wrong way around. The article stated:

“The focus on any retirement income policy should be on strengthening self-funded superannuation, and the age pension should only act as add-on or top-up. The government should aim to have as few people rely on the welfare of the age pension.

“Expressing the objective of superannuation in the way the government proposes is to put tax and financial consideration at the centre of superannuation policy. Instead, the starting point for any consideration of superannuation should be the inherent dignity of individuals taking personal responsibility for the care of themselves in retirement.

“Saying that the main objective of superannuation is merely to save taxpayers the cost of the pension, is like saying people should be encouraged to get a job so the government doesn’t have to incur the expense of paying the Newstart Allowance.

“Work is important in and of itself. The self-respect of a retirement that doesn’t rely on support from someone else is no less important.

“An objective for superannuation that was centred on dignity and choice in retirement could be expressed in the following way.

The objective of the superannuation system is to ensure that as many Australians as possible take personal responsibility to save for their own retirement. The age pension provides a safety net for those who are unable to provide for themselves in retirement.”

There are now some 1.6 million Australians who are trying to create their own self sufficiency by looking after themselves in retirement by either partly or fully self-funding their retirement. The majority of this group would not support the view that superannuation is just “to provide income in retirement to substitute or supplement the Age Pension”.

Also in 2013 the then Minister for Financial Services and Superannuation, Bill Shorten MP, stated

“Australia has a three pillar approach to the provision of retirement incomes, comprising the means tested and publicly funded Age Pension, compulsory private

savings through the Superannuation Guarantee arrangements, and voluntary private savings supported by taxation concessions.

The Age Pension remains the main support in retirement for those who are not able to save a sufficient amount during their working life. Superannuation was designed to reward and support all Australians to save for a comfortable, secure and financially adequate retirement.

*We owe it to all Australians, present and future, to sustain a system that gives everybody a fair shot at a decent and dignified retirement. **This is the ongoing objective of superannuation.***

It is a task which requires long-term thinking.

Current and future Governments must recognise the need to provide superannuation policy certainty. To focus on what current generations of working Australians will want from their retirement in the decades to come.”

Notwithstanding the apparent acknowledgement of the broader role of superannuation by Government over many years, it is disappointing that the narrow focus that persists in the current drafting of superannuation legislation.

Secondary Objectives

It is noted that in the Exposure Draft explanatory materials for the Superannuation Objective Bill, as well as having a Primary Objective for superannuation, the Government has proposed **five Subsidiary Objectives** which provide the framework for assessing the compatibility of any Bill or Regulations associated with the primary objective of the superannuation.

However, these Subsidiary Objectives **do not** seem to be in the actual legislation for the primary objective. A.I.R. suggests these should be included in the legislation if it is intended that they are to be used to evaluate other superannuation legislation or regulations.

Withdrawal of the contribution harmonisation

These issues around the objective of superannuation are compounded by the decision announced on 15 September to withdraw the measures proposed under item 5 of this draft legislation to harmonise the contribution rules for people aged 65 to 74.

We consider that this decision completely ignores changes currently happening in the community and our association strongly objects to this decision. This bombshell decision is a step back in time and completely ignores the changes in the community that are happening now for those who are aged 65-74. Yet again further change, inconsistency and another poor decision that impacts on senior Australians.

A.I.R. reiterates it's clearly stated position that there must be bi-partisan agreement to a holistic review of Australia's retirement income and superannuation system. Changes to superannuation have far-reaching and long lasting impact on the ability of people to have a comfortable retirement. Change should only be undertaken after extensive consultation and should not be made in response to short-term political imperatives.

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