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Director
Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury

By email: superannuationobjective@treasury.gov.au

Dear Sir/Madam

Thank you for the opportunity to provide a submission in response to the Legislating the Objective of Superannuation Consultation paper (the paper) released by the Treasury.

FINSIA – the Financial Services Institute of Australasia – is the leading professional body in the financial services industry in Australia and New Zealand, with a membership base of more than 15,000 members across the two markets. Our members operate in a range of sectors across the financial services industry including banking, institutional markets, funds management, securities and financial advice. Our purpose, since 1886, has been to support the financial services industry by driving the highest levels of professionalism for the betterment of our community through consistent standards of competency and conduct.

FINSIA's response to the questions contained in the Legislating the Objective of Superannuation Consultation Paper is set out below.

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

FINSIA believes there are practical benefits of legislating an objective for the superannuation system including providing certainty for individuals when saving for their retirement and improving the direction to trustees in respect of their duties in governing superannuation funds.

Legislating the objective of super could potentially have the effect of helping to ameliorate political interventions in the system, which assists with entrenching greater certainty, stability and long-term stewardship of one of Australia's most important assets. The wording of the proposed objective clarifies that superannuation is for retirement income (notwithstanding there may remain extraordinary circumstances for early release). A retirement-income objective will reduce the potential for fund members to use the system architecture as a wealth accumulation framework or facilitate estate planning strategies.

A focus on retirement income may offer additional benefits such as providing support to individuals who feel pressured by third parties to withdraw a lump sum at preservation age, whether that is to pay debts, gift to family, or bequest the money elsewhere (i.e., use the money for purposes other than supporting their own retirement income.) Where the cultural norm becomes to acquire a retirement-income product, there is potential to support strategies to prevent some forms of financial-related elder abuse[1],[2].

FINSIA supports an objective that includes a purpose around equity. This will help ensure that further changes to the superannuation (and retirement income) system will support disadvantaged and less represented groups to maximise their superannuation (or retirement income) benefits.

A focus on equity may promote policy enhancements to improve retirement outcomes for, for example, women, first nations people, carers, low-income earners, part-time workers, those in the gig-economy, self-employed people, unemployed people and others that are exempt or excluded from fully participating in the superannuation system in its current form[3] [4].

An objective that includes a purpose around both equity and sustainability (and broader fiscal policy realities) may facilitate more mature and nuanced policy debate around superannuation tax arrangements and concessions.
Moreover, a focus on income during the decumulation phase should encourage enhancements to the retirement income product suite and give greater certainty to individuals that they can live well while managing longevity risk.

When considering the risks associated with legislating the objective of superannuation, we note the statement in the Executive Summary of the Consultation Paper "*There is a significant opportunity for Australia to leverage greater superannuation investment in areas where there is alignment between the best financial interests of members and national economic priorities, particularly given the long-term investment horizon of superannuation funds".*

The wording of the proposed objective does not seek to include or enshrine that superannuation investments could or should be aligned with national economic priorities. If the government does in fact intend to seek opportunities to promote or divert superannuation investment toward areas of 'national economic priorities', merits aside, this should be made clear in the objective. The setting of an objective should not be interpreted as a licence to promote or divert superannuation investments to areas considered national economic priorities, without this being made clear.

If made clear within the legislated objective that the Government will seek to leverage superannuation investments in areas where there is alignment between the best financial interests of members and national economic priorities, the merits of this should be explored and debated. Furthermore, safeguards and risk limits should be in place. As a dystopian example, there should not be a legal possibility that superannuation funds are required to invest 100% of their funds in defence, with a Government claiming this to be in the members' best interests.

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[1] https://humanrights.gov.au/about/news/speeches/elder-financial-abuse-insights-alrcs-elder-abuse-inquiry

[2] https://www.alrc.gov.au/publication/elder-abuse-a-national-legal-response-alrc-report-131/7-superannuation/financial-abuse-and-superannuation-funds/

[3] https://www.pwc.com.au/digitalpulse/superannuation-gig-economy.html

[4] https://www.researchgate.net/publication/342375609_Aboriginal_and_Torres_Strait_Islander_Australians_and_the_Superannuation_System

Similarly, the proposed objective – while referring to the sustainability and equity of the system – does not call out tax concessions specifically. This may a deliberate approach to the design to allow for a broader range of measures to promote sustainability and equity in the system. However, if this wording is intended to refer to the tax arrangements for superannuation (and if the term 'fitting within broader fiscal strategy' refers to tax arrangements) then this should be brought to the fore and made abundantly clear how important the tax concessions in the context of superannuation are for both individuals as well as superannuation funds.

Given that superannuation will continue to exist across generations, socioeconomic circumstances and demographics, any objective should be clear in its intent and wording, with no hidden meanings that would be difficult for those outside of the industry to understand.

The proposed wording of the objective must be suitably broad to cater for societal evolution. Specifically, the term 'dignified' may sound old-fashioned and out of touch to younger generations or as though it refers to higher socio-economic individuals. The term dignified does not equate to the same level of income in retirement for all people. What one person might consider 'dignified' may not be considered 'dignified' by another person with a higher standard of living during the working years.

Similarly, the use of the word 'equitable' has been defined as delivering a similar outcomes to people in similar situations. Both concepts could be more clearly enunciated by reference to 'standard of living' rather than 'a dignified retirement'. We suggest that more egalitarian wording such as 'comfortable', 'secure', 'adequate', 'respectful', 'quality' or 'promotes wellbeing' could be considered.

We would also suggest that the term 'preserve savings' could be replaced with 'prudently accumulate savings'. To those outside of the superannuation industry, 'preserve' may suggest keeping something fixed or in its original state, whereas 'accumulate 'implies a steady increase over time.

The proposed wording suggests upon retirement that superannuation should convert into an annuity of some form, or combination of annuities. While a sensible objective we note that the proposed wording may be interpreted as limiting the withdrawal of lump sums. Lump sums are often accessed to pay off a mortgage or modify a home to cater for elderly residents – all of which may greatly add to a 'dignified' retirement. FINSIA suggests that it might be more appropriate to include the term 'to provide financial support' to better consider lump sum withdrawals.

We also note that 'sustainable' will generally be interpreted by a fund member to mean that accumulated funds are sufficient to last throughout retirement, whereas to the Treasury it implies that it can be afforded by the economy. Furthermore, 'alongside government support' may suggest all superannuation benefit recipients will be receiving government support. This statement should be qualified, for example, by stating 'alongside government support where necessary/appropriate'.

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

While we agree the proposed objective aligns with a general understanding of the purpose of superannuation, we note the following points.

Many individuals have historically been advised, and have implemented strategies in good faith, to use the superannuation framework as a means to build and accumulate wealth, and for estate planning. While we do not support grandfathered provisions, we feel there needs to be further consideration of those who have used the superannuation system for pursuing other financial objectives in good faith.

The preservation of superannuation is important. Generally, most people are not *rational investors* who always make decisions that are in their best interests. A recent example of this would be the opportunity to access funds within superannuation as part of the Covid-19 response. While some of the ways these monies were used were rational, such as payment of debts, purchase of working from home furniture, or spending on food and clothing, some of the funds were spent on discretionary expenses including gambling.

Superannuation has been successful because it has been compulsory and because it can't be accessed until a condition of release has been achieved. We would want to see this requirement remain.

There has been much discussion about the role of superannuation to address housing affordability. While we support housing affordability as an admirable policy objective, we feel housing affordability is not problem to be solved via superannuation.

Australia's 'three pillars' retirement framework - superannuation, a government provided Age pension and voluntary savings – it is important any legislated objective includes the third pillar of personal savings. For example, the wording could be amended to an 'adequate retirement, supported by personal savings'.

We note the current proposal does not seem to consider people who are unable to work due to poor health or disabilities. Further consideration of superannuation funds providing income in the event of disability or financial hardship, plus clarification of the role of insurance in superannuation is required.

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

FINSIA supports enshrining the objective in legislation. While we recognise that alternative approaches, such as via the superannuation regulatory Prudential Standards set by the Australian Prudential Regulatory Authority (APRA) may be possible we feel they are not appropriate, as it would allow for regulator-led changes to the objective, rather the democratic process via Government.

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

The debate around the objective for superannuation is likely to include a discussion around the merits of allowing early-access for housing. The current Australian housing issues around affordability and availability is a distinct and urgent policy issue that requires dedicated, practical and innovative policy responses. Suggesting the superannuation system may improve the crisis may result in complacency from policymakers who feel the issue is being dealt with. Government policy should address the national housing issue rather than looking for a solution that involves retirement savings. We also are concerned about the potential inflationary pressure on housing (as a result of an early-release policy for first home buyers) diminishing the value of any early-access[5]. We recognise the need for further discussion on this issue given the various complexities.

Renting should be a credible option in retirement. While we know that owning your own home is a key element supporting a more financially secure retirement, this is partly a reflection of a lack of rental protection mechanisms. The government, in tackling housing issues, also needs to address the rental shortage and protections for renters. It is not likely that there will be a time when all retirees own their own home, and renting should be a credible and safe option in retirement.

There is also a risk of exacerbating the relatively poorer outcomes for women in superannuation, with women's early access likely to have greater long-term impacts on the amount accumulated by preservation age, creating an even wider gender superannuation gap. Given woman tend to be lower income-earners than men on average, they may be more likely use their superannuation funds for a housing deposit.

Allowing early access to superannuation funds for housing discriminates against other types of investment. There is a risk of the continuous expansion of early release criteria to investment properties, second properties, rent, renovations, market investments, cryptocurrencies, cars, and other uses of funds that are deemed essential to support people's wellbeing throughout their life.

We think there is the opportunity to look to other countries. For example, Singapore's Provident Fund systems, provide for parallel or sub-accounts within their pension (superannuation) account, that can be used by members for items such as education, housing, emergency funds, or other purposes. This provides an 'early access' mechanism without tapping into the dedicated pension/superannuation fund[6]. While we note that there are individuals who do not have adequate funds for their retirement, we feel there is an opportunity for Australia to explore a parallel-savings account option within the superannuation system. This may include similar incentives and concessions as superannuation contributions and allow members access to these funds under certain criteria.

[5] https://www.superannuation.asn.au/ArticleDocuments/359/2103-Housing-Affordability-and-Superannuation.pdf.aspx?Embed=Y

[6] https://documents1.worldbank.org/curated/en/757001551715193169/pdf/Early-Access-to-Pension-Savings-International-Experience-and-Lessons-Learnt.pdf

Closing

We trust that you find the points made above helpful in your deliberations as part of this consultation. We look forward to continuing to provide input to you over coming weeks and months. If you have any specific questions in respect of the views set out in this submission, please contact me or Kylie Blundell on +61 2 9275 7900.

Yours sincerely

Yasser El-Ansary
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