



CEPAR submission on legislating the objective of superannuation

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About CEPAR

The ARC Centre of Excellence in Population Ageing Research (CEPAR) is a collaboration between academia, government, and industry to address one of the major economic and social challenges of the 21st century.

The Centre is based at the University of New South Wales with nodes at the Australian National University, Curtin University, the University of Melbourne, and the University of Sydney. It aims to establish Australia as a world leader in the field of population ageing research through a unique combination of high level, cross-disciplinary expertise drawn from Economics, Psychology, Sociology, Epidemiology, Actuarial Science, and Demography.

CEPAR is actively engaged with a range of influential government and industry partners to cooperatively deliver outcomes to meet the challenges of population ageing. It is building a new generation of researchers to global standard with an appreciation of the multidisciplinary nature of population ageing.

Mission

CEPAR's mission is to produce research of the highest quality to transform thinking about population ageing, inform product and service development and provision (private practice) and public policy, and improve people's wellbeing throughout their lives.

CEPAR has contributed significantly to the evidence base available for formulating policy regarding superannuation and retirement. Relevant Research Briefs are available here:

- **Retirement income in Australia: Part I – Overview:**
<https://cepar.edu.au/resources-videos/research-briefs/retirement-income-australia-part-1>
- **Retirement income in Australia: Part II – Public support:**
<https://cepar.edu.au/resources-videos/research-briefs/retirement-income-australia-part-2>
- **Retirement income in Australia: Part III – Private resources:**
<https://cepar.edu.au/resources-videos/research-briefs/retirement-income-australia-part-3>
- **Housing in an ageing Australia: Nest and nest egg?:**
<https://cepar.edu.au/resources-videos/research-briefs/housing-ageing-australia-nest-and-nest-egg>

Introduction

This submission has two parts. The first directly addresses the consultation questions. The second raises issues with the consultation paper not covered by our responses to the consultation questions. We use as the basis for our response the first definition proposed in the consultation paper:

The objective of superannuation is to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.

Consultation questions

1. **What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system? AND**
2. **Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?**

Benefits consist of greater clarity in future policy development and greater confidence in the system. If the objectives are established in a way that gives the Australian public confidence that they are enduring then it can provide trust and confidence in the system and enable it to achieve its full potential. With a well formulated definition, there should be limited risk associated with the objectives. However, there are risks associated with the current proposed wording. These include:

- A narrow interpretation of "income", to exclude superannuation assets and lump sums. Resources in retirement are provided by the income from those savings as well as flexible lump sum drawdown on the savings.
- The exclusion of resources other than superannuation and public support from retirement income, especially housing.
- A narrow interpretation of "retirement", to exclude the later part of life we think of as "old age". Retirement should not be narrowly defined. The reality is many people will move in and out of the workforce as they age, working varying hours as needed and able.
- A loose interpretation of "sustainable", to include actions not in the best interests of superannuation fund members. It could be used to justify inappropriate uses of superannuation.
- A lack of recognition of the risks confronting people in later life, and the power of superannuation to address those risks. The biggest benefit of capital is to help manage risk: this applies to corporations but also to super fund members. This capital should be seen as being available to help them manage their risk to cashflow (e.g. through insurance or flexibility in drawdown).

With the above considerations in mind, we would recommend an alternative wording:

*The objective of superannuation is to accumulate savings to deliver **financial resources and help manage risks**, for a dignified retirement **and old age**, alongside other private resources and government support, in an **effective, efficient** and equitable way.*

This revised definition gives greater substance and structure both to the nature of what superannuation can deliver, and to the nature of what people may require from financial resources at later ages. It leaves open the use of superannuation contributions for life and disability insurance, as well as longevity insurance and aged care. It therefore accords more precisely with what we consider to be an appropriate objective of the superannuation system.

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

Having this in legislation, with consensus (encapsulating so far as possible bipartisan and community support/engagement), has the potential to limit future deviations from the objective in subsequent policy development. See below, under “4”, for a possible alternative.

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

If the definition is to have genuine effect, it will be necessary to provide oversight as to its application. For example, it may be beneficial to establish an independent Board appointed by parliament to oversee superannuation legislation, with terms of reference covering specific objectives to maintain the integrity of the superannuation system.

Comments on the consultation paper:

1. We begin with a broad observation: The consultation paper does not really capture the journey of superannuation fund members from starting work, their retirement and to their deaths. This is a journey where both risks and capabilities change through a succession of life stages, and the resources available to members, both superannuation and other resources, notably housing and public support for retirement, health and aged care, should meld to deliver security and dignity. While the consultation paper does note that superannuation is only one part of a more complex system of support in retirement, referred to under “cohesion” (p 8), it does not recognise the other elements of the system in any substantial way, nor does it articulate the role of superannuation in providing integration across the support mechanisms that exist after retirement.
2. In the Executive Summary, it is stated that Australia’s superannuation provides 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.”(p 4). It is not at all clear how these would be reconciled, or how the objective would assist in any adjudication. The idea of a “clean” pension, which aims to deliver “effective and efficient and untainted retirement incomes which meet beneficiaries’ best interests” (de Cure 2019) is germane here. Compromising this through considerations of broader national interest is the thin end of a wedge that could drive the political use or allocation of savings/capital within the system to government priorities. The objective of superannuation should exclude this possibility.
3. Under “Practical Application” (p 12) it is asserted that the legislation defining an objective for superannuation would “not change trustee obligations”. The trustees of super funds including directors of the trustee company need to manage the super fund in accordance with legislation including any legislated objectives, the trust deed, SIS legislation and consider the best interests of members. When trustees are making decisions about member benefits, products, services, payments to beneficiaries, early release, investment strategies, risk management, they will have to have regard to what the objectives of superannuation are, and therefore this legislation would have significant impact on the Trustees’ decision-making.

4. The consultation paper makes no reference of its own to the complexities of the existing system, and the need to simplify the superannuation system. The existing system comprises the broader system of government support, not just Super, and simplification should be addressed holistically.
5. It is not clear from the consultation paper how the legislation would ensure that policy development and parliamentary scrutiny had sufficient checks and balances, particularly if it does not have bipartisan support. This relates to our comment on consultation question 4, but it is worth re-iterating here. Absent some such accountability mechanism, it is likely that legislation of an objective will fail in its effect, especially over time.

Reference:

De Cure, M. (2019). Clean Pensions: Factors Impeding Effective Delivery of Retirement Income Solutions: The Australian Experience. Paper presented to the International Pensions Research Association, OECD, Paris, June 5, 2019. <https://cepar.edu.au/sites/default/files/MdC-OECD-Conference-2019-talk-with-slides-FINAL.pdf>