6 April 2016

Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: superannuationobjective@treasury.gov.au

Re: Comments on Objective of Superannuation – Discussion Paper

Cbus is pleased to provide a brief submission regarding the 'Objective of Superannuation'.

Background

Cbus is the industry superannuation fund for the construction, building and allied industries. Cbus is run only to benefit members and recently received recognition for its 10 years as a platinum rated fund by independent ratings agency *SuperRatings*. Cbus has over 720,000 members, 100,000 employers and $32 billion in funds under management.

Cbus invests back into the construction and building industry, which not only provides strong long-term investment returns, but helps boost our economy and create jobs within the industry.

An objective based policy framework

The superannuation system is highly regulated, as it should be given its compulsory nature and taxation concessions, and subject to much regulatory change. Such change often demands time and resources to implement which equates to costs to superannuation members.

Successive governments have recognised change fatigue amongst the broader public around superannuation rules and have undertaken not to change regulations only to then implement significant changes.

That is the prerogative of government, however, there is a need for policy proposals to be measured against whether they are aligned with an agreed and enshrined purpose.

Cbus supports the recommendation by the Financial System Inquiry that broad political agreement for the objectives of the superannuation system be sought.

Financial System Inquiry recommendation and the Government's response

The Financial System Inquiry Report recommended that the Government should seek support for the primary purpose of superannuation and enshrine it in legislation as being:

"To provide income in retirement to substitute or supplement the Age Pension."

The discussion paper makes clear that the Government supports this as the objective that should be adopted.

It should be noted that the compulsory superannuation system is already lifting the pressure off the government's pension obligations by as much as $7 billion a year and these savings will increase as the system matures.[1]

Projections suggest that the proportion of Australians fully funding their retirement at age 65 will rise from 22 per cent to 43 per cent by 2023. In this sense the system is well on the way to achieving this objective.

And it recognises the interplay between the various retirement income pillars.

This last point is very important. Australian's retirement income is based on three pillars – superannuation, the Age Pension and personal savings – and they do interact with each other through regulation.

This important distinction was recognised by the then Treasurer and current Cbus Trustee Director, John Dawkins, in introducing universal superannuation through the Superannuation Guarantee.

Mr Dawkins rightly pointed out in 1992 that:

"The increased self-provision for retirement will permit a higher standard of living in retirement than if we continue to rely on the Age Pension alone. It would also enable future governments to improve the retirement conditions for those Australians unable to fund their own retirement adequately."

The salient point here is the recognition that superannuation is designed to work alongside the Age Pension, not to replace it.

A danger in adopting an isolated objective for superannuation as being the sole means of funding retirement by substituting the Age Pension may result in governments pre-emptively withdrawing from their obligation.

This would be financially catastrophic for millions of Australians. The Australian Superannuation Funds Association (ASFA) estimates that in order to attain a comfortable retirement a couple would require savings of $640,000 or a single person would need $545,000.

[1] Clare, Ross *Mythbusting superannuation tax concessions* ASFA Research and Resource Centre, March 2016.

However, even these figures rely upon an assumption that the couple or single would receive a part Age Pension.

Currently, less than 6% of Cbus members aged 60 or over have reached this standard. Based on retirement income estimates, less than 20% of all Cbus members will reach this standard when they retire.[2]

This emphasises the need for the superannuation system to be allowed to mature and to be understood as only one part of the retirement income system.

The proposed objective put forward by the Murray Inquiry and supported by the government does relatively little by the way of providing a useful guide to achieve the stated rationale for legislating the objective of superannuation, specifically providing "a way in which competing superannuation proposals can be measured."[3]

Because of this, Cbus submits that a more measurable, ambitious and broader purpose statement could be adopted against which the whole of the retirement income system policy proposals can be measured.

This would include, but not be limited to, Age Pension policy, the taxation system, superannuation regulation and aged care policy.

We support the proposed objective advanced by Industry Super Australia (ISA) that the retirement income policy objective for superannuation be: *To deliver financial security and dignity in retirement to all Australians by providing regular income that is, when combined with any public pension and other sources of income, sufficient to secure a comfortable standard of living.*

The objective measure for a comfortable standard of living could draw from the well-established ASFA comfortable retirement income standard mentioned above.

In raising the bar and broadening the objective beyond superannuation providing income in retirement substituting or supplementing the Age Pension, the purpose not only provides a wider, strategic focus for policy-makers but a higher onus on industry participants consistent with many of the FSI Report's further recommendations.

For example, by adopting the broader objective and focussing on retirement outcomes, the response from industry must not simply be on maximising accumulation but on structuring retirement phase products that assist in delivering the objective.

Such an objective would provide much greater clarity for policy makers, regulators, industry and the community to weigh the merits of policy or conduct against.

---

[2] Based on ASIC RIE Guidance, estimates as at 2015, assuming 50% of ASFA couples figure, based on funds held by Cbus only.

[3] Discussion paper at 1.

Subsidiary objectives and points for discussion

Cbus notes the subsidiary objectives and their rationale, however, we believe they are somewhat jaundiced failing to give proper recognition and weight to the role superannuation plays in the broader economy.

Investment

Cbus members have a clear interest in how their funds are invested to ensure long term net investment returns and greater retirement benefits.

Members and employers, government and community have a direct interest in how the superannuation system invests. For Cbus, the investments made in the built environment through property and infrastructure not only provide strong returns to members they create jobs and contribute to productivity growth.

There is clear evidence that investment in fixed capital, and particularly in infrastructure, lifts living standards, productivity and wages.

A recent paper by Victorian University modelled the impact of infrastructure investment on the broader economy and found that real GDP gains of 0.28% can be sustained through a $50 billion investment in infrastructure.

With Australian superannuation savings now greater than $2 trillion and government's facing fiscal constraints, there is more that superannuation can do in this space for the betterment of our community and economy, while still delivering on the principle objective.

However, policy settings may influence the willingness and capacity of trustees' investment decisions.

Financial stability

The Reserve Bank noted in its submission to the Financial System Inquiry that

"The rise of superannuation has transformed the Australian financial system…the growth in superannuation has been in many ways conducive to financial stability, by adding depth to financial markets, and providing a stable, more or less unleveraged, source of finance for other sectors."[4]

Clearly, public policy settings and the behaviours of industry have the capacity to impact on superannuation's role in continuing to be conducive to financial stability. The subsidiary objectives should recognise this contribution and take up the RBA's recommendation that the system's role in stability be "carefully monitored".

[4] Reserve Bank of Australia, Submission to the Financial System Inquiry, 2014, page 7.

National savings

There can be no doubt that superannuation has made and will continue to make a major contribution to Australians savings rates. According to Treasury estimates, the superannuation system currently contributes about 1.5 to 2 percentage points to the national saving rate and this will rise to 3 percentage points by 2050.

This increased saving reduces the cost of capital and reduces the reliance on foreign capital.

At a time when Australia's foreign liabilities are rising to historical highs increasing the level of risk, Cbus does not accept that the role superannuation plays in enhancing national savings should be played down in prominence in the system's objectives as suggested in the discussion paper.

Rather, all three of the above matters should be included in the subsidiary objectives.

Other matters

Cbus advocates that clear reference and reinforcement of the compulsory, universality of the system should be captured in the subsidiary objectives to further strengthen the objective and ward off policy options that may be confused by policy makers when considering choice and flexibility to meet individual needs and preferences.

We also believe there is a place for reference and reinforcement of the need for the system to be simple, efficient, *equitable* and provide safeguards.

A focus on equity in the system would reinforce the objective of providing all Australians with a comfortable retirement and would assist policy makers in better targeting tax concessions, implementing co-contributions and addressing issues of gender and other bias.

We concur that:

"Given the compulsory nature of SG contributions, the system needs prudential oversight and should provide good outcomes in both the accumulation and retirement phases for disengaged fund members."[5]

This reinforces the need for a "quality-filter" overlay in the selection of default funds based on long term fund performance as measured through net returns (returns after costs) and not on costs alone.

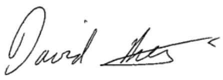
We would also add that the compulsory nature of the system requires both prudential and strengthened compliance oversight. The current level of unpaid superannuation has been estimated by Tria Investors to be $2.6 billion in 2013 rising by around 5%

[5] Discussion paper at 3

per annum and impacting the retirement savings of some 700,000 people missing out on some or all of their super contributions.[6]

Please do not hesitate to contact Rod Masson on (03) 8648 6954 if you have any queries in relation to our submission.

Yours sincerely,



David Atkin
Chief Executive Officer

[6] Tria Investment Partners, *Superannuation Guarantee non-compliance* Cbus September 2015