



8 July 2013

The Commonwealth Treasury
Attention:
Charter Group
Langton Crescent
PARKES ACT 2600

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Charter of Superannuation Adequacy and Sustainability

Dear Sir/Madam,

The Australian Industry Group welcomes the opportunity to provide input into the Charter of Superannuation Adequacy and Sustainability.

Core Principles Underpinning the Charter

1. The core principles could be improved by adding in a separate principle that is able to focus attention on administrative and compliance issues.

We suggest this for two reasons:

- At the moment these issues are squeezed uncomfortably under the heading "sustainability";
- A separate focus on administrative and compliance issues would allow reference to the costs, ease and efficiency of administration and compliance as well as to the responsibilities of administrators and employers under the superannuation system.

The uncomfortable positioning of administration and compliance considerations is apparent in the Discussion Paper itself. Question 9 for discussion (page 7) reads: *How should the Charter take into account the goal of administrative simplicity and balance this against other objectives such as fairness and sustainability?* We agree with the inference in the question that administrative simplicity is better seen as separate from sustainability.

A separate treatment of administration and compliance issues would permit a fuller discussion of the range of issues relevant to administration and compliance and would permit a focus on improving administration both on the part of the government, minimising compliance costs for employers and clients and improving the quality of service provided and experienced by stakeholders.

2. The core principles could be improved by stating that: “Confidence in the superannuation system is important because the system holds and manages a large proportion of Australians’ savings and because it is a significant source of investment funds.”

This seems to us to be even more fundamental than the issues put forward in the Discussion Paper relating to the non-discretionary characteristics of superannuation.

Adequacy

Ai Group would like to suggest a number of improvements to the consideration of adequacy of retirement income.

1. The consideration of adequacy could be improved by including non-superannuation sources of income apart from the age pension (including the imputed income of owner-occupied housing). Clearly non-superannuation sources of wealth are objectively relevant to the ability of individuals and households to enjoy an adequate, or indeed comfortable, level of retirement income. This should be recognised. Australia has a comparatively high level of home ownership and a comparatively high level of individual share-ownership.
2. We question whether this statement (from page 6) is correct and suggest it should be modified:

Superannuation is designed to reward and support all Australians to save for a comfortable, secure and financially adequate retirement.

Superannuation is centred on the employment relationship (including self-employment). At any time a very large proportion of Australians are not in the workforce and some may only be in the workforce intermittently and/or for short periods over their lives. We suggest that superannuation is in fact not designed “to reward and support all Australians to save”.

3. The third area of improvement relates to this statement (from page 6):

A commonly expressed aspiration for adequacy is for a superannuation balance large enough to provide an income stream (including capital drawdown) of around 70 per cent of pre-retirement income over a 25-30 year period.

We find that such statements are overly-simplistic and obscure more than they reveal.

It seems to us ridiculous to suggest that an annual retirement income from superannuation of \$90,000 would be regarded as inadequate for a person with an annual pre-retirement income of, say \$150,000; who owns an owner-occupied house; an investment property; a portfolio of financial assets held outside the superannuation system and is without debt.

We, further question whether, even in the absence of other sources of wealth, a retirement income from superannuation of anything less than \$140,000 would be inadequate for a person retiring on an annual income of \$200,000.

Quick reference to a dictionary suggests that “adequate” means “barely sufficient or suitable” and that “adequacy” refers to “sufficiency for a particular purpose”. Neither the idea of “barely sufficient” nor the variety of particular circumstances is captured in the cited aspiration for adequacy in superannuation.

The shortcomings relate not only to relatively well-off people. A person retiring from the workforce after a period of casual employment during which they earned \$300 a week might not regard a superannuation income of \$11,000 a year as adequate for his or her retirement.

Sustainability

The Discussion Paper invites contributions on how the costs and benefits of the superannuation system should be measured. We would like to make two points: one relates to some aspects of costs that are sometimes overlooked and the other relates to the measurement of the tax expenditure.

- 1 One area of costs that seems to Ai Group to be commonly overlooked is the opportunity costs relating to foregone current income as income takes the form of contributions to superannuation.

We understand the arguments about how individuals may fail to allocate a sufficient proportion of their current income to saving – particularly when retirement may be decades away. This theory should not however be an argument to set the opportunity costs to zero in any evaluation of the costs and benefits of the superannuation system.

Along similar lines, but in fact an additional point, the costs relating to the loss of discretion over savings should not be ignored.

Recognition of these costs is not an argument against superannuation but they should be taken into account in any full assessment of the costs and benefits.

- 2 Ai Group is very wary of the methodology for assessing the “tax expenditure” on superannuation.

Tax expenditures are easier to talk about than they are to define adequately or to measure. Definition and measurement of tax expenditures require specification of a counterfactual tax treatment. There are numerous possible methodologies and considerable, albeit very dry, controversies abound. Yet in discussion and reporting of tax expenditures inadequate attention is given to the contentions surrounding these important issues.

The superannuation tax expenditures are often assessed against the benchmark of a comprehensive income tax. However, it is very widely recognised that the comprehensive taxation of income would distort individuals’ decisions away from saving and towards current consumption.

This anti-saving distortion is one of the stronger arguments for having an approach to the taxation of superannuation that departs from a comprehensive income tax treatment. It therefore seems illogical that superannuation tax expenditures would be assessed against the benchmark whose distortions serve as a rationale for the policy decision not to apply the benchmark.

We therefore urge considerable caution in any reference to measures of tax expenditures and strongly support the Council of Superannuation Custodians facilitating greater understanding of the limitations of current measures of the superannuation tax expenditures.

Please do not hesitate to contact me or Dr Peter Burn, Ai Group’s Director of Public Policy (peter.burn@aigroup.asn.au, 02 9466 5566) if you would like to discuss these issues further.

Yours sincerely

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