

24 June 2013

Treasury
Attention: Charter Group
Langton Crescent
PARKES ACT 2600

Level 18, 215 Adelaide Street
Brisbane Qld 4000

GPO Box 1450
Brisbane Qld 4001

Phone 07 3233 9100
Fax 07 3211 9339

policy@nationalseniors.com.au

Charter of Superannuation Adequacy and Sustainability

With 200,000 individual fee-paying members aged 50 and over across the country, National Seniors Australia (National Seniors) is the consumer lobby for older Australians.

National Seniors welcomes the opportunity to comment on the Charter of Superannuation Adequacy and Sustainability. Superannuation is a key component of the Australian retirement income system. The adequacy and the stability of the superannuation system is a significant concern for older Australians. A recent National Seniors' survey of individuals aged 50 and over has revealed that 70 per cent have little confidence that the rules won't change by the time they retire. Older Australians have indicated that uncertainty over their retirement income is affecting their retirement plans and reducing their confidence in the retirement income system.¹

National Seniors has provided the below responses to key questions which significantly impact on National Seniors' members.

What is your view of the core principles underpinning the Charter?

National Seniors supports the proposed core principles of certainty, adequacy, fairness and sustainability. However, National Seniors believes that the context reference points should be expanded.

- 1. National Seniors recommends:** that the context point of *"People are living longer"* should be expanded to *"People are living longer and their retirement lifestyle expectations are increasing"*.

As Australians continue to extend their life span, retirement lifestyle expectations are increasing. Older Australians are now seeking to continue their current lifestyle into retirement years, with commonly planned activities including socialising with friends, travelling, hobbies, gardening, home improvement as well as time with family.²

¹ National Seniors Australia (2012) *Superannuation Survey* National Seniors.

² National Seniors Australia and Insuranceline (2012) *What Next? Workforce Transition and Retirement Planning Among Australia Pre-Retirees* National Seniors Australia.

Certainty

What safeguards can be placed on changes to the superannuation system to promote certainty?

National Seniors believes that the current level of uncertainty and confusion surrounding superannuation policy is creating a disincentive for all Australians, including older Australians to invest in the superannuation system, beyond the statutory commitment.

The superannuation system continues to lack transparency creating much of the uncertainty felt by many Australians. National Seniors also believes that the current proposed legislation changes to improve transparency such as the standardised product dash board are a welcome first step but do not go far enough. National Seniors believes that the government should again review the ability of the average Australian with the average level of financial literacy to understand the superannuation system and make rational retirement investment decisions. Improving transparency will help address uncertainty.

Achieving a stable approach to superannuation policy change is vital to allow older Australians to plan for their own retirement without the fear of ad hoc policy amendments damaging their retirement plans.

- 2. National Seniors recommends:** that grandfather provisions be mandatory for all changes to superannuation policy; and that all change to superannuation policy have a mandatory lead-in period.

The adoption of the recommended mandatory grandfather provisions will ensure that those that have already committed significant resources into superannuation in good faith under a specific set of regulations are not unfairly punished with the implementation of a new policy position. The recommendation of a mandatory lead-in period will provide individuals with sufficient time to adjust their retirement investment mix to compensate for any changes to the retirement income system.

The recommendations will eliminate the current shock, stress and frustration which many experience as a result of unexpected and poorly announced changes to superannuation policy.

How should the Charter reflect procedural fairness, including providing adequate notice of future changes and an open and transparent consultation process?

Many of the recent amendments to superannuation are announced by government through the budget process and then drafted directly into a Bill. It is only at the Bill stage of the process that stakeholders have the opportunity to comment, by which time the government is committed to the change. The current process does not allow for adequate notice to be provided to all affected stakeholders, many Australians are only aware of a change to superannuation policy when they start to experience the negative consequences.

- 3. National Seniors recommends:** that the Charter enforce a mandatory consultation process with all key stakeholder groups (including seniors' representatives).

Current arrangements have been inadequate with an inequitable reliance on superannuation funds to influence policy directions. For all significant changes to superannuation National Seniors suggests that government develop and make available for public comment a discussion paper.

In addition National Seniors suggests that the Council of Superannuation Custodians should be responsible for proactively circulating and providing notification of the discussion paper to key stakeholder groups to ensure as *broad* a consultation as possible is achieved.

- 4. National Seniors recommends:** that the consultation process includes the creation of a discussion paper incorporating a communication plan to target those that would be affected most by the proposed changes.

A key component of the discussion paper must be a proposal of how the government will notify the changes to the public, for example the government could indicate that it proposes to require superannuation funds to individually notify their members of the change. The key stakeholders will be able to comment on this aspect of the discussion paper and provide advice to the government on how best to communicate with the individuals that their groups represent. For example, older Australians often prefer face-to-face communication.³

- 5. National Seniors recommends:** That government produce and make publicly available a summary of the consultation process including the level of the support for the proposed changes.

The creation of a specific consultation and notification process may improve the level of transparency and increase the degree of understanding of superannuation policy changes.

Adequacy

What would be appropriate benchmarks for measuring the adequacy of the superannuation system?

National Seniors is not supportive of the 70 per cent of pre-retirement income definition of adequacy. National Seniors believes that a more adequate measure is a benchmark of the average expenditure required to live a modest and dignified life in retirement, similar to what is produced by the Association of Superannuation Funds of Australia (ASFA).⁴

However, the ASFA benchmarking includes assumptions which are becoming less accurate, for example the assumptions that all retirees own their own home and have no outstanding debts in retirement. A recent survey of over 50s revealed that 47% still have a mortgage and 24% have other debts above \$50,000.⁵ Older Australians are now also often exposed to high levels of unexpected aged care and medical costs.

³ South Australian Health (2012) *Age-friendly South Australia: Guidelines for State Government* South Australian Government.

⁴ Association of Superannuation Funds of Australia (2013) *Retirement Standard March Quarter 2013* ASFA Research and Resource Centre.

⁵ REST Industry Super (2012) *The Journey Begins white paper* Retail Employees Superannuation Pty Limited.

- 6. National Seniors recommends:** That the superannuation adequacy benchmarking must be calculated based on average expenditure required to live a modest and dignified life in retirement and include a financial buffer to provide protection from unexpected costs.

Different benchmarks should be established to reflect varying levels of debt and asset ownership. Any benchmark must also be continually reviewed to incorporate the rapidly increasing cost of living and lifestyle expectations.

Fairness

What principles would support fairness in the distribution of government assistance in the retirement income system and how should they be incorporated into the Charter?

There is a group of self-funded retirees who are being disadvantaged by the significant cost of living increases and who do not have sufficient superannuation reserves to offset the increases in costs and/or do not receive the additional concessions available to pension card holders.

The Charter should recognise the value of all the benefits that low income individuals can receive when eligible for full or part pension and these benefits should be considered when assessing the fairness of any future changes to the retirement income system. For example, eligibility for even a dollar of the pension provides many additional benefits, including reduced medical expenses, property rates, utilities and transport concessions, and these must be considered.

- 7. National Seniors recommends:** That the Charter recognise and specifically consider the self-funded retirees with limited incomes who are not eligible for the pension and its associated concessions.

A blatantly unfair and discriminatory aspect of the retirement income system is the age limits on personal contributions into superannuation, for example the inability of those aged 75 and older to make any voluntary contributions and the exemption from governmental co-contributions schemes for those aged 71 and older.⁶

- 8. National Seniors recommends:** That the Charter include the removal of all discriminatory age-based limitations on superannuation contributions as a sub-objective under fairness.

Superannuation and Retirement Incomes

What weight should be given in the Charter to the considerations below?

- 9. National Seniors recommends:** That in developing the Charter equal weighting is given to the discussion paper's proposed key considerations:
Recognising the inherent trade-offs involved in retirement income policy;

⁶ Australian Law Reform Commission (2012) *Grey Areas- Age Barriers to Work in Commonwealth Law* Australian Government.

Considering the interactions between the superannuation system and other elements of Australia's retirement income system; and
 Recognising the intergenerational costs and benefits of superannuation savings and tax concessions.

National Seniors believes that the retirement income system must be viewed as a component of the wider taxation system and economy. However, this broad context does not reduce the importance of the trade-offs and inequities within the current retirement income policy.

Power of the Council

Should the Council have the capacity to recommend policy changes?

The Council should have the capacity and should be obligated to publicly recommend policy changes that it believes will improve the superannuation system. Making the recommendations of the Council publicly available for government consideration and public comment will ensure that the Council is accountable for its delivery on its Charter objectives.

10. National Seniors recommends: That the Council should have the capacity to recommend policy change and that all its recommendations are made publicly available.

Structure of the Council

How should the Council be assembled to adequately reflect the wide range of community views on superannuation?

Given that the primary purpose of superannuation is to provide its members with financial resources and other benefits during their retirement⁷ and that the Council's purpose is to effectively steward the superannuation system, it is appropriate that the Council is comprised of individuals and groups with expertise on the superannuation system and, equally importantly, the views of the community.

11. National Seniors recommends: That the Council comprises of individuals and groups with expertise on the superannuation system and, are able to provide the views of the community.

National Seniors appreciates the opportunity to comment on the Charter and the Council of Superannuation Custodians, and looks forward to working with the government and the Council in the future.

Yours sincerely

Michael O'Neill
Chief Executive Officer

⁷ Australian Government Department Families, Housing, Community Services and Indigenous Affairs (2013) *Overview of Superannuation* Australian Government.