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10 February 2017

Superannuation Tax Reform
Retirement Income Policy Division
The Treasury
Langton Crescent PARKES ACT 2600
Email: superannuation@treasury.gov.au

Dear Laura/Robb,

Subsidiary objectives

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to *Exposure Draft -Superannuation (Objective) Regulation 2016*.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system so people can live in retirement with increasing prosperity. We focus on the issues that affect the entire superannuation system. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90 per cent of the 14.8 million Australians with superannuation.

Subsidiary objectives

ASFA has consistently welcomed the decision to legislate an objective of superannuation but considered that the definition should be broader than that which has been proposed.

As such, we consider the objective of the superannuation system is *“to provide an adequate income to ensure all Australians achieve a comfortable standard of living in retirement, supplementing or substituting the age pension.”*

ASFA agrees that a single primary objective cannot possibly encompass the full purpose of the system. Subsidiary objectives are required to comprehensively define this fuller purpose. While ASFA is broadly supportive of the subsidiary objectives highlighted in the regulation, we recommend the following additional subsidiary objectives be incorporated in the framework.

Subsidiary objective	Why the objective is important
Be equitable in its outcomes for current and future generations	<p>The superannuation system must be equitable in its outcomes.</p> <p>Intra-generational equity in the system ensures individuals are treated fairly after taking into account different levels of income and net worth. Inter-generational equity describes the burden or benefit one generation has compared with another.</p> <p>Treating individuals fairly promotes confidence and belief in the system. As the system matures, this will manifest itself in higher levels of voluntarily engagement by superannuation members to achieve better retirement outcomes.</p>
Provide insurance that delivers valuable protection to the community and meets members' needs at reasonable cost	<p>The provision of group insurance is a crucial part of the superannuation system that assists Australians who suffer misfortune.</p> <p>These arrangements alleviate underinsurance and the potentially devastating economic implications for individuals and their families who face personal tragedy. Lack of cover also adds to the call on the public purse through increased social security benefits including disability payments and single parent allowances.</p>
Be fully funded from savings	<p>A fully funded system, as opposed to an unfunded system, is important for sustainability and stability. The system is designed to be predominantly funded by savings from working life income and investment earnings, where superannuation fund members in general have claims on all assets in the fund.</p>

The subsidiary objective relating to insurance should clearly define the purpose of valuable insurance arrangements provided through the superannuation system. It is not adequate to state that "A range of other benefits may also be provided through superannuation, for example advice or insurance." This fails to reflect the broader policy role that insurance in superannuation now fulfils in the community.

In addition, the FSI recommended the inclusion of a subsidiary objective that the system "Be fully funded from savings". ASFA supports this subsidiary objective and believes that it should be incorporated in the regulation. Australia must fund retirement through income earned during working lives. The importance of a fully funded system will only become greater as Australia faces a demographic shift and the public purse cannot fund adequate retirement incomes.

Health care costs funded by the Commonwealth Government are projected to more than double in real terms per person over the next 40 years and aged care expenditure is projected to rise from 0.9 per cent of gross domestic product (GDP) in 2014/2015 to 1.7 per cent of GDP in 2054/2055. In 2055, life expectancy at birth is projected to be 95.1 years for men and 96.6 years for women, compared with 91.5 and 93.6 years as it is currently.

There will be fewer people of traditional working age compared with the very young and the elderly. This trend is already visible, with the number of people aged between 15 and 64 for every person aged 65 and over having fallen from 7.3 people in 1974-75 to an estimated 4.5 people today. By 2054-55, this is projected to nearly halve again to 2.7 people.

This subsidiary objective will ensure policy does not place the burden of retirement funding on our children and lessen the living standards of future generations.

Should you have any questions on any of the matters raised in this submission please do not hesitate to contact me on 02 8079 0800 or via gmccrea@superannuation.asn.au.

Yours sincerely

Glen McCrea
Chief Policy Officer