Join us in Setting the Public Policy Agenda

31 March, 2023

Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
Parkes, ACT 2600

By email: superannuationobjective@treasury.gov.au

Dear committee members,

Re: Legislating the objective of superannuation consultation paper

The McKell Institute recognises the potential to boost confidence and stability in Australia's superannuation sector by enshrining the objective of superannuation in legislation.

As a progressive research organisation, the McKell Institute's policy work has delivered key findings and robust recommendations relevant to this consultation:

- *Economic benefits of universal superannuation:* how superannuation works for all of us (link here)
- *Mortgaging our future* (link here)
- *COVID-19: Nine reasons why accessing super early is a risky idea* (link here)
- *Buy high, sell low?* The early super access scheme and forgone returns on investment (link here)

Our *Buy high, sell low?* research found that $4.7 billion in superannuation returns were lost in just one year due to the use of superannuation to fund household stimulus during the pandemic. This loss occurred due to the sale of assets when the market was at its lowest.

An individual who withdrew the maximum $20,000 lost $3,644 in investment returns, or 18 per cent, in just 12 months. This represented one of the most expensive options to provide household relief. In many cases, putting $20,000 on a credit card would have been more responsible. If stimulus had been provided by Government debt the cost would have been around 2.5 per cent p.a.

The superannuation scheme is undermined when it is not used as intended. This underpins the need to legislate its objective.

Setting an objective

The Commonwealth is maintaining a single focal point in this process – to define the objective of super – and we regard this approach as a starting point that could end the "super wars".

Efforts to prevent future governments of the day changing our superannuation system, or chipping away around the edges, is essential to promote confidence in superannuation. Faith in the system benefits workers upon retirement.

This consultation calls for views on key terms used, and we note the importance of settling on definitions ahead of draft legislative for the following terms– 'preserve savings', 'deliver income', 'dignified' and 'equitable and sustainable'.

We agree with the principle of preserving savings, but further work will be required to investigate and explain how this would work while maintaining a robust and fit-for-purpose life insurance system.

Our work has demonstrated the need to discourage super funds from being used as bank accounts – even in times of crisis. Existing provisions allow for access to superannuation if an individual experiences extreme financial hardship or life-threatening illness. This is strictly means-tested and appropriate. However, any activity that weakens super preservation without strict means testing waters down the capacity of individual super funds to deliver on its core purpose.

As explained in *Covid 19: Nine reasons why accessing super early is a risky idea,* early super release presents risks to consumers and to the overall performance of Australia's superannuation funds.

This is a separate matter to life insurance given the nature of life insurance's purpose and function, and how it is accessed. The vital role life insurance plays in superannuation cannot be overlooked, given it provides for the people who cannot continue to accumulate superannuation.

Acknowledging this relationship within the future Bill's memorandum, as recommended by the Council of Life Insurers, would be an important part of recognising how any changes to super could impact life insurance.

The committee should consider defining allowable expenses within the superannuation system which must [1] support the financial wellbeing of the individual in retirement and end-of-life and [2] without substantially affecting superannuation balances prior to retirement.

Existing provisions that allow superannuation to be used in extreme cases of hardship, or in preparation, for hardship (such as income insurance) should continue to be allowable.

We offer two additional recommendations for later stages of the legislative process and implementation:

- Improving superannuation literacy and understanding for young people. Australians can start working at 14 and nine months, and while compulsory superannuation is not payable until they either turn 18 or work 30 or more hours a week, many young workers open their first superannuation account upon starting their first job.
- Review the implementation of the retirement income covenant to make sure it aligns with the proposed legislation and is delivering its intended purpose.

The structure of our superannuation system must be based on the presumption that most people begin working without inherited wealth.

Stagnant wage growth, the rising cost of living and unaffordable housing means that more than ever, people must be able to have confidence in superannuation. It is the key source of income and financial security for most Australian workers throughout their retirement.

We appreciate the opportunity to show how our research into superannuation policy may inform this consultation and welcome further conversations.

Australia has led the way in looking out for the long-term financial security of workers in retirement, and we encourage the Commonwealth Government to reinforce the importance of superannuation and make sure its evolution continues to set new global standards.

We commend the government's efforts to strengthen Australia's superannuation scheme through legislation to support an equitable system that benefits all workers.

Rebecca Thistleton

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