

2015: Super Forever...



Super Implications from the FSI

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- An identified weakness
 - Superannuation is not delivering retirement incomes efficiently
- A specific theme
 - Lift the value of the superannuation system and retirement incomes



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- The super recommendations aim to:
 - Set a clear objective to provide income in retirement
 - Meet the needs of retirees better by requiring trustees to pre-select an income product
 - Improve long-term net returns by introducing a formal competitive process



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The objectives of the super system

- *To provide income in retirement to substitute or supplement the Age Pension*



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Recommendation 9

Seek broad political agreement for, and enshrine in legislation, the objectives of superannuation and report publicly on how policy proposals are consistent with achieving these objectives over the long term



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Seek broad *political agreement* for, and enshrine in legislation, the *objectives* of superannuation and *report publicly on how policy proposals* are consistent with achieving these objectives over the long term



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Subsidiary objectives

- Facilitate consumption smoothing over one's life
- Help people manage financial risks in retirement
- Be fully funded from savings
- Be invested in the best interests of fund members
- Alleviate fiscal pressures on Government
- Be simple and efficient, and provide safeguards



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Other possible objectives?

- Coverage
- Insurance
- Financial advice
- Availability of capital



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Implications

- Let's keep the objectives high level and simple
- Let's recognise diversity and competition
- Let's highlight the long term focus
- Particular targets may not be helpful





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Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.





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- A good idea – natural flow on from MySuper
- However what issues should trustees consider?
 - Investment mix (returns and volatility)
 - Capital access (pre and post death)
 - Longevity
 - Guarantees or pooling?



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- “greater use of longevity pooling”
- Annuity or group self annuity?
- Mercer LifetimePlus (investment option)
 - Investment earnings every quarter
 - Capital return after 15 years
 - Pooling of longevity risk
 - No capital required





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Why?

- International fees – is it fair to compare?
- Increasing scale has not seen reducing fees
 - *Supply side*: market fragmented; active investment; tax; insurance; policy changes
 - *Demand side*: lack of competition; lack of comparison; agency issues



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Implications

- Will MySuper and SuperStream work?
 - The industry is on notice!
- A competitive process
 - What are the criteria?
 - Only for new entrants, very gradual
 - Several successful funds
 - Extra costs

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Super tax issues identified

“Tax concessions in the superannuation system are not well targeted to achieve provision of retirement incomes.”

“Aligning the earnings tax rate between accumulation and retirement would reduce costs for funds, help foster innovation in whole-of-life products, facilitate a seamless transition to retirement and reduce opportunities for tax arbitrage.”



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“Issues should be considered as part of the Tax White Paper process.”

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Implications

- We must look at the whole retirement system
- We must focus on retirement incomes
- We must acknowledge the facts
- We must keep it simple

You have been warned!



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Suggestions

- Introduce lifetime caps, not annual caps
- Apply Div 293 to all members on top tax rate
- Reduce non-concessional caps
- Limit size of tax exempt retirement pot

