Australian Council of Public Sector
Retiree Organisations Inc. ABN 74 202 015 642

Peak Council representing Commonwealth, including military, State, Territory and other public sector retirees.

12 Muresk Street, Farrer ACT 2607

30 December 2016

The Secretary
Senate Economics Legislation Committee

Submission to Senate Economics Legislative Committee: Senate Inquiry into *Superannuation (Objective) Bill 2016 [Provisions]*

ACPSRO is the peak council for organisations representing retired civilian and military public sector workers from the Commonwealth, State and Territory governments. Our member organisations have had long and extensive experience with superannuation, especially defined benefit pension schemes (now closed to new members) that are dedicated to providing an income in retirement for the contributor and a surviving spouse or dependant child, and not more. The initial level of retirement income is "defined" primarily by the recipient's salary at retirement, so long as certain employment prerequisites and compulsory employee contributions have been met. That income markedly reduces the reliance on the Age Pension for most of our present public sector retirees.

The primary objective of superannuation
ACPSRO supports the primary objective of superannuation as stated in the Bill: *"To provide income in retirement to substitute or supplement the Age Pension."*

However, we would point out that this could be interpreted to apply to an individual without regard for a surviving spouse, even when that spouse has contributed in a major way to the superannuation of the other partner. That would be unfair.

What is important about this primary objective is that it says that superannuation is about the provision of retirement income while the individual (or spouse) lives, and nothing more. ACPSRO cannot see any justification for the use of public monies in whatever form to do more than encourage superannuation dedicated solely to providing a retirement income.

Policy decisions on retirement incomes must be considered in the context of all associated retirement income sources and concessions, and the tax treatment of each income source.

A taxation concession is as costly to revenue as an equivalent taxation payment, despite some arguments to the contrary. While the cost of taxation concessions, under our existing accounting practices, can only be estimated, whereas taxation payments are scrupulously accounted, that does not invalidate the fundamental point that a dollar of taxation not collected has exactly the same impact on the Budget outcome as a dollar paid out as a benefit. Such concessions need to be sufficient to encourage people to save/invest for their retirement, but they should be appropriately targeted.

Estate planning and inter-generational transfers may be a legitimate part of a person's overall financial planning strategies, but should be implemented outside the superannuation environment and not benefit from superannuation concessions intended to assist the attainment and maintenance of a secure retirement income.

In order to achieve the Bill's "primary objective", people should be encouraged to provide for their retirement by starting to invest for it as early as possible. The Commonwealth (military and civilian), State and Territory governments' defined benefit pension schemes (now closed to new members) featured compulsory member (ie employee) contributions. Apart from any such direct employee contributions, contributions from employers, whether just those mandated by the Super Guarantee or established by negotiation at higher levels, should be seen as a wages substitute.

Subsidiary objectives
The subsidiary objectives listed in the Bill might appear to apply more particularly to investment strategies and other factors inherent in accumulation or Account based schemes than to the defined benefit pension schemes backed by Commonwealth, State or Territory governments. However, at least the first two subsidiary objectives: to "facilitate consumption smoothing over the course of an individual's life", and to "manage risks in retirement", have implications for defined benefit (DB) schemes. That is so especially in schemes where the defined benefit is paid out not as a life pension, but instead as a cash benefit upon retirement which, depending on age may have to be immediately reinvested in an Account based superannuation fund. Risks in those cases include the earnings and security of a retiree's fund, coupled with the longevity of the superannuant (and spouse), often accompanied by a great fear of "running out of money".

Another "risk in retirement" that threatens "consumption smoothing" in later life *for everybody* is the problem of **keeping abreast of prices** that people actually have to pay. Defined benefit pensions are often indexed according to movements in the Consumer Price Index (CPI). The CPI is a measure of inflation that discounts price rises that can be attributed to improvements in the goods or services surveyed, so as to "compare apples with apples". Unfortunately, consumers often have no choice but to buy a new and "improved" product as the superseded models disappear from the market place. In these cases, CPI indexation does not provide additional income to pay for such "improvements", so the retiree must reduce expenditure on other items to compensate, thereby suffering a drop in living standards in absolute terms and, in many cases, becoming progressively more reliant on a part-Age Pension.

That may not be noticed by a defined benefit retiree over the first 4-5 years of retirement; over 20-25 years it becomes significant. How a defined *contribution* scheme retiree, ie with an allocated, probably un-indexed, pension can address the issue is going to be a major Government policy challenge.

Ongoing **changes to the Government's rules** linking superannuation with access to the Age Pension, some with and some without any "Grandfathering" provisions, have generated a climate of uncertainty. They have reduced the total retirement incomes of many superannuants, who cannot rearrange their affairs to compensate, and they undermine the incentive for persons currently in the workforce to make sacrifices now to provide for themselves in retirement. These disincentives have included recent changes to the Age Pension income and assets tests and the treatment of that part of a superannuation pension that can be deemed to be a return of one's own tax-paid contributions (the 10% cap). These Government rules changes, in themselves, are a significant "risk in retirement".

Conclusion
While endorsing the primary objective of superannuation as laid out in this Bill, ACPSRO would urge the Committee to address the whole range of taxation and other policies that affect the total usable income, living costs and the financial security of retired Australians throughout their remaining years.

Richard Griffiths
National President
Australian Council of Public Sector Retiree Organisations (ACPSRO)

Tel:	02 6248 9609
Mob:	0412 164 404
Fax:	02 6248 0709
E-mail:	GriffithsRD@gmail.com