Only the best for purpose of super

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As 2016 came to a close, the federal government invited submissions to its discussion paper on the definition of superannuation, a final act in the significant changes enacted last year. Superannuation is a long-term savings vehicle and the Self-managed Independent Superannuation Funds Association (SISFA) applauds appropriate long-term planning for our superannuation system.

While the government's proposal to have a strong and clear framework that provides a consistent goal for the future laws designing Australia's superannuation system is a worthy cause, the adoption of a primary objective centred on the age pension is not long-term thinking. It is a narrow objective aimed at avoiding controversy rather than assisting with nation building.

The proposed primary objective adopted in the discussion paper, "to provide income in retirement to substitute or supplement the age pension", is too narrow with undue emphasis on the role of the age pension. Surely Australia's superannuation savers deserve a more aspirational definition than a benchmark of the age pension.

SISFA believes our superannuation system should promote and achieve self-reliance of taxpayers throughout their retirement/senior years by delivering sufficient income attained through a combination of compulsory and voluntary saving.

Superannuation should be the preferred means of providing for a person's retirement. The age pension (government provided) should only be an option for those individuals who are unable to provide for themselves from their superannuation alone. Superannuation should be promoted as replacing, and not merely supplementing, the age pension in as many cases as possible in the long term. The age pension should serve only as a true safety net.

So how much is enough to retire on? Being such a subjective area, instead of assigning a dollar value to the ideal end superannuation benefit, we should examine the effect of how a reduction in superannuation taxes and/or an increase in contribution levels would improve retirement outcomes and reduce reliance on the age pension.

SISFA believes the government should pursue the options identified, with a focus on how increased superannuation benefits in the long run reduce public reliance on the age pension. Increased superannuation benefits, particularly in the form of income streams, will enable more people to provide for their own health and aged-care needs, thereby reducing the long-term burden on taxpayers.

Australians' engagement in their own superannuation savings has always been a challenge and to engender a desire for self-reliance, the Australian community must have a significantly enhanced ownership interest in superannuation. The model for this is clearly the SMSF sector, where trustees' and members' objectives are aligned – a major reason for the successful growth of this sector.

It's disappointing the current round of policy changes, the most significant changes to superannuation in the past decade, proceeded without the legislated objective. Our clear understanding in the lead-up to the last budget was that the objective of superannuation was intended to be settled prior to any further changes. As we now know, the changes are law, but the requisite stated policy context remains the subject of a separate inquiry.

If the objective of super is to reduce the need for the age pension, then the risk of not self-funding retirement could be met by being able to access a government pension, as occurs now. However, making super simpler would allow the average person to better understand and therefore more actively manage or participate in their retirement savings.

The latest reform, though, does not meet this objective of simplicity. If we seriously want to achieve this objective, why not have no tax on the way in and a straight tax at marginal rates on the way out? It's simple, and those with higher earnings pay more tax as they access their pension/retirement savings. In this way, a lot of compliance burden would be reduced.

The new capping rules also add complexity unnecessarily, and with it additional costs, and overall less efficiency in the retirement savings space. Even with 15 per cent tax on the way in, no tax on any pension balance earnings, and tax at marginal rates on the way out, those with more savings will pay more tax and the high earners will pay more than the average person.

In the haste to legislate to meet revenue goals, only time will tell if we have missed the opportunity to truly achieve the government's original aim where "96 per cent of individuals with superannuation will either be better off or unaffected as a result of these changes".