

10 September 2015

Via email

Email: [bettertax@treasury.gov.au](mailto:bettertax@treasury.gov.au)

Dear Sir/Madam,

**Re: Our final supplementary response to Tax Discussion Paper Re:think**

*The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.*

*As the principal advocate and peak representative body for the \$650 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.*

*AIST provides professional training, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.*

**In brief:**

AIST is pleased to provide our final supplementary submission to the tax discussion paper. AIST supports a comprehensive review of superannuation and retirement incomes which takes into account the broader environment of the system, rather than considering tax changes on their own. Our submission is intended as an introduction to the AIST Mercer Super Tracker, through which we have modelled a number of proposed changes to superannuation. Our modelling, which has been undertaken by AIST in conjunction with Mercer, is attached as a separate paper.

AIST is pleased to make this second submission in response to the Tax Discussion Paper. We believe that it is both important and timely to consider the tax treatment of superannuation as part of the Tax review.

A comprehensive review of superannuation and retirement incomes in the wider context of Australia's overall tax system is long overdue and presents a golden opportunity for a responsible and forward-thinking Government to develop a strong and robust framework. Such a framework will ensure the long-term sustainability and fairness of Australian's superannuation system, and help overcome the constant tinkering which reduces the efficiency and fairness of the system.

## Introduction

In our first submission<sup>1</sup>, AIST advocated that transparent objectives for the superannuation system – coupled with agreed key performance indicators and a governance method for reviewing the outcomes – are needed to provide a sound framework for examining any proposed taxation changes to the Australian superannuation system.

We have recommended<sup>2</sup> a method to establish a robust review, with the purpose being to examine the establishment of such a framework. In summary, the recommended method to establish a review includes:

- **Stage 1.** AIST proposes that the Government convene a broad-based summit on the objectives of the retirement incomes system as a first step in establishing the process. This summit should respond to a discussion paper prepared by Treasury, result in a Green Paper, followed by a White Paper and legislation.
- **Stage 2.** This should be followed by a technical review addressing structural issues, a legislative audit, establishing parameters for super fund-level post-retirement frameworks and an analysis of the interrelationship between the various elements impacting on retirement incomes (e.g., superannuation, age pension, social security, aged care).

In our first submission<sup>3</sup>, we also outlined what those objectives could be, as well as providing detail about the AIST Mercer Super Tracker (a methodology to assess the Australian superannuation system). Our first submission included the current 'scores' for the superannuation system, and concluded by saying that the AIST Mercer Super Tracker would be used to model a number of policy options which we would cover in a subsequent submission.

We now have the results of modelling a number of policy options within the Tracker, which we cover in this submission.

In providing the outcomes of modelling these policy options via the Tracker, AIST strongly reiterates that a strong and robust framework must be developed before any policies are examined. Without a framework, the ongoing level of change will continue without structural context. One of the major complaints consumers have with the superannuation system is that

---

<sup>1</sup> AIST, (2015). *Response to Tax Discussion Paper Re:think 1 June 2015*. [online] AIST. Available at: <http://tinyurl.com/nbyovqd> [Accessed 14 Aug. 2015].

<sup>2</sup> AIST, (2015). *Supplementary response to Tax Discussion Paper Re:think 24 July 2015*. [online] AIST. Available at: <http://tinyurl.com/qe53tu6> [Accessed 21 Aug. 2015].

<sup>3</sup> AIST, (2015). *Response to Tax Discussion Paper Re:think 1 June 2015*. [online] AIST. Available at: <http://tinyurl.com/nbyovqd> [Accessed 14 Aug. 2015].

there is constant change. AIST submits that this arises through superannuation (and other inter-related systems such as tax and the transfer system) being dealt with as a one-off Budget night decision. There are solutions to alleviate this.

There is also the need to bring together the number of extant reviews potentially affecting both the detail and framework of Australian retirement incomes, including the Financial System Inquiry, the Treasury Review of retirement income stream regulation (AIST submitted that this Review was narrowly focussed and could not be properly addressed without the tax review having occurred first), and the Re:Think Tax Discussion Paper.

### The dual role of the AIST Mercer Super Tracker

AIST has put forward the outputs of the Tracker to demonstrate what a method for policy assessment might look like, and to highlight the need for such a methodology. AIST developed the Tracker with two key purposes in mind:

- The Tracker provides an objective methodology for gauging where the superannuation system costs and benefits are at a point in time. The Tracker – in setting its Key Performance Indicators – takes into account assumed objectives of the superannuation system, and has been based on a recent EU methodology, adapted for Australian conditions.
- The Tracker is also a robust, transparent tool to provide empirical evidence of the impact of road-testing policy.

### Outputs from the AIST Mercer Super Tracker – over 20 policies road-tested

As our first submission<sup>1</sup> indicates, ‘adequacy’, ‘coverage of people in the system’, ‘total cost of government support for age pension and super’, and ‘current level of super assets’ all rate very well in the Tracker, both now and into the future.

The key problems identified via the Tracker with the Australian superannuation system are fairness of the spread of government tax concessions and the gender gap in super savings. In order to identify policy solutions which address these two problem areas, AIST asked Mercer to model over 20 policy proposals through the Tracker. These proposals include the Labor’s superannuation proposals, the Green’s superannuation proposals, and various other policies which have been proposed or suggested by various peak bodies and media commentators. In addition to road-testing these proposals, AIST used the Tracker to test our own proposals and the Government’s now-legislated policy to change the Age Pension asset test and taper rate.

The results are contained in the enclosed report prepared by Mercer, ‘Measuring various options against the AIST Mercer Super Tracker.’

Any reform of the superannuation system should prioritise the known problem areas rather than first addressing issues which are of lesser concern. As stated above, the Tracker has clearly and objectively identified fairness and gender as two key problem area within our current superannuation system.

As the Secretary to the Treasury recently commented<sup>4</sup>: *'An important criterion for a well-functioning tax system is fairness, where there are some contentious and important issues that need to be explored. ... (In particular, he singled out tax concessions in super)'*.

It may be seen from the enclosed report that many policy proposals – such as increasing contribution caps or having a generous lifetime cap – do not meaningfully address the key concerns of lack of fairness or close the gender gap – i.e. they have very little – if any- statistical impact on the current Tracker score. Given that any change to superannuation policy carries with it an element of uncertainty and loss of confidence, we question the merit of considering any changes which do not have a significant impact.

In addition to addressing these key concerns, AIST highlights that there is a need for a holistic approach when considering possible policy proposals affecting the taxation of superannuation. There are three stages of taxing superannuation: money going into the fund, money staying within the fund, and money leaving the fund. AIST notes that the interplay of the taxation of the three stages can have unintended consequences. A good example of this is how the current three stage taxation of superannuation particularly detriments women. Women earn less and receive a lower superannuation benefit yet (as lower-middle income earners) they are taxed on money going into the fund, pay tax while money is in the fund, but rarely receive the benefit of tax free withdrawals as their benefits are usually under the tax free threshold.

All three areas need to be taken into account when considering changes to policy, as restricting consideration to just one stage (e.g. changes to contribution caps) is restrictive and poor policy.

### Further presentations of the AIST Mercer Super Tracker

AIST strongly believes that setting system objectives and having a robust methodology to track the costs and benefits of the system is needed to overcome both the perceived and actual reality that there is constant tinkering with the superannuation system, as well as there being a lack of transparency regarding such issues as fairness within the superannuation system.

---

<sup>4</sup> Yeates, C. (2015). *Time for debate on superannuation tax, says Treasury Secretary John Fraser*. Sydney Morning Herald. [online] Available at: <http://tinyurl.com/ncah6sh> [Accessed 14 Aug. 2015].

The AIST-Mercer Super Tracker<sup>5</sup> assumptions include how each metric is weighted against each other. This reflects OECD<sup>6</sup> comments that when deciding on whether to provide targeted relief and how much, a key issue is the evaluation of such reliefs. Uncertainty about the impact of various policies can add to fragmentation of a reform approach.

AIST would be very pleased to arrange a presentation on the Tracker, how it works, and the outputs of road-testing various policies.

### Setting a transparent framework

AIST has recommended above the steps to establish a transparent framework, which should include the objectives for the superannuation system, principles of taxation of superannuation, and agreed performance indicators. AIST would be very pleased to be part of any process to undertake this role.

\*\*\*

If you have any further questions regarding this submission, please contact Karen Volpato, Senior Policy Advisor on 0419127496 or at [kvolpato@aist.asn.au](mailto:kvolpato@aist.asn.au).

Yours sincerely,



Tom Garcia  
Chief Executive Officer

---

<sup>5</sup> AIST and Mercer, (2015). *AIST Mercer Super Tracker: How the super system stacks up on fairness, adequacy, and sustainability*. March 2015. [online] AIST and Mercer. Available at: <http://tinyurl.com/nkjptll> [Accessed 14 Aug. 2015].

<sup>6</sup> OECD, (2010). *OECD Tax Policy Studies Choosing a Broad Base – Low Rate Approach to Taxation No.19*. [online] OECD. Available at: <http://tinyurl.com/myurpne>