

**Inaugural Sustainable Retirement Incomes
Leadership Forum Communiqué**

2-3 June 2015

Canberra

The Inaugural Sustainable Retirement Incomes Leadership Forum was convened today in Canberra by the Committee for Sustainable Retirement Incomes (CSRI). Participating in the Forum were:

- Academy of the Social Sciences of Australia
- Australian Council of Social Service (ACOSS)
- Committee for Sustainable Retirement Incomes (CSRI)
- Council on the Ageing (COTA Australia)
- Industry Super Australia (ISA)
- National Seniors Australia (NSA)

The Leadership Forum brought together government, opposition, industry, academics, media and community leaders to debate the issues and promote an informed and purposeful retirement-income reform agenda for Australia.

Overview

There was considerable agreement at the Leadership Forum on the following:

- The basic design of Australia's retirement income system should be retained: The three pillar system is well recognised around the world and Australia and is currently ranked second in the Melbourne Mercer Global Pension Index.
- Australia has large and successful, non-profit, retail, corporate and self managed superannuation sectors giving a wide range of choice for superannuation savers and retirees.
- The efficiency, scale and extent of competition in the Australian superannuation system should be further considered.
- Constant piecemeal change and continual speculation around superannuation rules and age pension eligibility create great uncertainty for Australians in and nearing retirement.
- The absence of clear goals and objectives inhibits the development of policies conducive to system sustainability, as well as its efficiency and equity and to broad community confidence in its future
- In the absence of agreed objectives there are questions about the system's coherence and effectiveness and it is difficult to agree how it could be improved.
- The system must provide appropriate default arrangements to provide security and reliability for those who are not well placed to make their own decisions.

The system requires neither to be rebuilt from scratch or put into stasis while perfection is designed.



The Government's response to the Financial System Inquiry (FSI) and the Review of Retirement Income Stream Regulation offer opportunities to progress work in a number of superannuation related areas in the near term. In particular, defining the objectives of the superannuation system and putting a stronger focus on retirement incomes, should not be impeded by the need for further processes elsewhere. The Tax White Paper process now underway offers scope to address some other issues, particularly taxation of the superannuation system.

What is missing is consensus on an overarching framework for the retirement income system as a whole – covering the age pension system, the superannuation system, related aspects of the tax system and other closely related matters such as the provision of appropriate housing for the aged, aged care, and the cost of health care for the aged.

Australia requires a whole-of-Government retirement income strategy that includes the superannuation system, an adequate age pension, and encourages individuals to self-fund their retirement.

Given the significant interrelationships between the superannuation, age pension and taxation systems, the Leadership Forum considered that clear overarching objectives are needed for the whole retirement income system. Government endorsed goals and measurable objectives for the retirement income system would assist in providing a framework to guide coherent policy development.

The Leadership Forum was inclined to follow the lead of the Murray Inquiry and propose only a limited number of core objectives for the retirement income system as a whole, supported by a number of principles that would guide progress towards the basic goals.

The core objectives the Leadership Forum suggested for the system are first to alleviate poverty in old age; and second to facilitate adequate living standards for all.

The age pension and superannuation work in combination to deliver these objectives. The primary objective of the age pension system is to provide a modest standard of living consistent with social norms. The primary goal of the superannuation system is to facilitate an adequate living standard in retirement.

More work would be needed to define appropriate adequacy benchmarks.

Focussing on these two core objectives should temper suggestions that the system pursue other goals such as wealth creation, estate planning, increasing national savings and investment in infrastructure or non-retirement expenditures.

Once developed and agreed, the important elements of these objectives and principles should be legislated to give them ongoing authority.

These two basic goals or objectives would then be complemented by principles that enable the retirement income system's performance to be assessed. These principles could be:

- Broadness and adequacy – it should protect those unable to save against poverty in their old-age and provide the means by which individuals must or can save for their retirement;



- Fairness and acceptability - it should consider the income needs of individuals both before and after retirement, be equitable and not bias inappropriately other saving decisions;
- Robustness – it should deal appropriately with investment, inflation and longevity risk;
- Simplicity and certainty - it should allow individuals to make decisions which are in their best interests; and
- Sustainability – it should be financially sound and detract as little as possible from economic growth.

Review Process

The Leadership Forum was of the view that a comprehensive evaluation of the retirement income system against these objectives and principles is needed to identify priority areas for reform and develop a policy blueprint including a transition path for implementation.

The Leadership Forum saw merit in an independent committee being charged with evaluating and putting forward a possible blueprint for reform of the retirement income system. Critical features of the committee would be:

- Members should be appointed in a personal rather than a representative capacity, selected on the basis of independence, experience, expertise, and diversity;
- Its approach would be highly consultative and transparent, engaging with industry and the broader community; and
- It would have the ability to obtain information relevant to its work from the relevant government agencies and independent regulators.

Scope of a Review

A holistic review of the retirement income system would address the following factors:

- Misalignment – to ensure the individual components of the system and their interactions are aligned with the overarching objectives of the system.
- Complexity – the system has been subjected to frequent changes resulting in high system complexity, so the opportunity should be taken to identify solutions that reduce system complexity.
- Widely varying personal circumstances –The current arrangements inhibits the ability of people with interrupted work patterns to save sufficiently for their retirement. Measures to address such variations in circumstances and preferences should be considered..
- Draw-down phase – Policy has largely focused on the accumulation phase with very little structure around what happens after retirement. Greater attention needs to be given to post-retirement income arrangements.

A comprehensive review could consider the following issues:

- Factors that affect gainful employment, the implications for age of access to the pension and superannuation benefits, and measures to allow individuals to better transition from work to retirement.
- Improving the efficiency of the safety net including the relationships between savings, age pension eligibility and home ownership.



- The adequacy of the age pension and superannuation pensions when the present scheme matures, and the interaction with other elements of the welfare system including health, aged care, rental housing and public housing.
- The effectiveness, efficiency and fairness of the tax concessions for superannuation saving, much of which is compulsory.
- The extent to which it should be a requirement to use superannuation payments to generate a retirement income, and how the longevity risk of living longer than expected can best be handled.

The signatories to this Communiqué will seek to develop a collaborative approach and engage widely in the pursuit of sustainable retirement incomes.

Signatories

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3 June 2015

