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'The Superannuation imperative'

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Thank you Johnny and Sally, and thank you Trans-Tasman for the invitation to speak today on a topic that I am very passionate about; the obligation we all have to ensure our superannuation system is delivering outcomes for **more** Australians.

Before I start I would like to acknowledge the traditional owners of the land the Gadigal people of the Eora nation and pay my respects to elders past and present.

INTRODUCTION

Ladies and gentlemen, we are at a **pivotal** time if we want to **safeguard** and **strengthen** the financial future of Australians.

For over 25 years now, we have built a **thriving** superannuation scheme for Australia that is deservedly the envy of much of the world.

As a nation we had the **foresight** and the **courage** to implement a system that provides an opportunity for Australians to have a dignified retirement.

Fast-forward to today, and Australians have invested more than \$2 trillion in superannuation assets¹, and at its current trajectory, the system is projected to double to \$4 trillion in the next nine years and reach \$9.5 trillion by 2035². This currently makes it the fifth³ largest pension pool in the world, despite having a population size that ranks 52nd globally.

Still, I observe that today this system - and the intent for which it was created - is maturing at a time when **four deep** structural and cyclical changes look set to reshape its future.

- Australia is facing an acute demographic shift rendering the current tax-payer funded pension system unsustainable;
- The uncertain current legislative agenda is threatening the confidence we place in a long term savings system;
- Persistent low growth and volatility is encouraging a ‘hunt for yield’ behaviour; and
- Digitisation is heightening customer expectations across all their financial interactions.

¹ ASFA Superannuation Statistics 2016

² Deloitte – Dynamics of the Australian Superannuation System: The Next 20 Years, 2015

³ Global Pension Asset Study, Wills Towers Watson, 2016

THREE CRITICAL ACTIONS

In this rapidly changing environment, achieving a **sustainable** model depends on three critical actions:

First, it is crucial that we have a bipartisan approach to Superannuation starting in this 45th Parliament;

Second, we must uncouple our long term savings system from an annual Federal Budget cycle; and

Finally, the industry must work in **unison** to improve customer engagement and build confidence to create a long term savings plan for retirement, both **in** and **out** of Superannuation.

The **foundation** for all these priorities is legislating a universal agreement on the objective of superannuation.

It is the **compass** by which the success of superannuation policy will be measured and the **guide** for all future policy changes.

I welcome Financial Services Minister, Kelly O'Dwyer's announcement earlier this year that the Government accepts the Financial System Inquiry's recommendation that the purpose of the superannuation system is to provide income in retirement to **substitute** or **supplement** the Age Pension.

While this statement does not address the issue of **adequacy**, as we would prefer, it at least provides a defined objective for us to build and measure stronger outcomes and therefore, fulfilling this purpose must be a **first order priority** for this Parliament.

THE NEED FOR BIPARTISANSHIP

With the purpose of superannuation defined, all sides of politics need to focus on how we best meet the demographic challenges facing this country. Our reality is that we simply won't have the ability to fund the growing burden on the Australian pension system.

Consider the **simple** maths...

By **2055** the number of Australians aged 65 or over will more than double from today's 3.1 million to 7 million and average life expectancy will be 95 years of age, compared with 91.5 today. And women will live slightly longer again.

More concerning, is that the proportion of people over the age of 65 will increase from 15% today to almost 23%.

Over the same timeframe, the proportion of people in the traditional tax paying and working ages of 15 to 64 will drop. We have already seen a fall from 7.3 working people per retiree back in 1975 to an estimated 4.5 people today. By **2055** this is projected to nearly **halve again** to 2.7 people.

And these people will shoulder the need to support double the number of people over 65, unless the system starts working better for everyone⁴.

This is not a theoretical issue - if you are over 25 today and alive in 2055 – hopefully that is many of us - you might want to take an interest in how long term savings policy affecting your quality of life is set.

Given this **stark** demographic reality, we must have a system that delivers 12% superannuation contributions, invested in funds that generate good capital returns and working for Australians who are also **encouraged** to make voluntary contributions.

⁴ 2015 Intergenerational Report, Australian Treasury

This will ensure when we have 23% of the population over 65, they have enough income to keep participating as consumers to continue to support the economy.

At the current timeline, today's **nine** year olds will be the **first** to have a full working life with a superannuation guarantee at **12%**. This age group **won't retire until 2072**, so for the rest of us that means we need to be doing more **now**.

The financial reality for many is mixed. To be fully independent of the age pension, a single person approaching retirement on the average income of \$75,000 would need at least \$810,000 by the time they retire at age 65. Currently this scenario will only be achieved by around **2%** of Australians⁵.

These numbers paint a dim picture and **command** a **Parliament** that has a genuine willingness for bipartisanship on sound policy so that our superannuation system has a viable future that is **fair** and **fiscally** sustainable.

It's crucial that the 45th Parliament rises above partisan politics by passing reform that is in the **best national interests** of Australia and implements it in a way that provides both assurance and a **clear pathway** for future changes.

⁵ SuperGuide six-monthly data March 2016.

FURTHER REFORM

Last year, I spoke at a Trans-Tasman event about a number of policy areas I believe will afford more Australians a more **dignified** quality of life in retirement.

Since then I've been pleased to see moves to create a more **sustainable** superannuation system. However, **98%** of the conversation currently remains focussed on issues like caps that will impact less than **1%** of the population, rather than helping more people to save enough for retirement.

Given what we, as a nation are facing into, tax incentives are **necessary** to encourage Australians to save more for their retirement as long as they are being used to build savings that generate an income in retirement that affords a decent quality of life.

Most Australians remain of the view that it's entirely **appropriate**, and **necessary**, to place a limit on the tax concessions people receive once they have accrued enough for a dignified retirement.

But we need to move past this debate and focus on helping middle Australia.

Fundamental to this is maintaining **trust** and **confidence**.

And the current annual assessment of the superannuation system pegged to a Federal Budget cycle, in my opinion, leads to an **erosion** of confidence in long term planning.

For a long term savings vehicle to be successful an annual assessment by Treasury in the Tax Expenditure Statement is **sub-optimal**. Looking at the costs over a four year time horizon provides little scope for a longer term considered view.

The Intergenerational Report is a much more appropriate vehicle to steer superannuation policy changes and unlike the annual Budget, it is published every five years and has a 40 year time horizon.

It contains the important demographic, actuarial and financial information to guide policymakers, particularly when looking at long-term adequacy and longevity benchmarks.

Additionally, after the release of the Intergenerational Report, a small independent group of superannuation experts should be established to provide advice and expertise to government to ensure that future superannuation policy refinements are aligned with both the legislated purpose of the superannuation system and the updated demographic outlook.

Another issue that remains unresolved is the difference of rules that deal with superannuation and the Age Pension. Last year, I called for the calibration of the process to ensure the system automatically adjusts to increases in life expectancy.

We should allow the Intergenerational Report to make recommendations on the appropriate access age for the Age Pension and for superannuation. These should be set using a measure of average life expectancy, and would be recalibrated every five years as new census information becomes available.

These are **sensible** reforms to build **better** and **more** predictable outcomes and this drives the necessary confidence in the system we require.

But it is not only up to Government to do the heavy lifting. It is also incumbent upon industry to drive customer engagement and inspire confidence.

Our industry has experienced an **erosion** of confidence as a result of poor behaviour by a few.

Industry participants must have the right culture, training and expertise to best grow customer savings over the five decades of working life.

Too often when we think about this industry we think in terms of retail, industry or public sector. However, when you look at it

through the customers' eyes, the industry is segmented into three offerings - MySuper, Advised and self-managed superannuation funds. For Australians to have confidence, they need to know that the people who are making investment decisions are the right people with the right skills to do so across these segments.

MySuper is a segment that continues to grow with not only default members but also members who choose to select or remain with their fund and are happy to delegate key investment decisions to a panel of experts, or trustees.

Given the high fiduciary obligations on trustees it is critical these individuals are of the highest calibre.

This is why BT has supported the call for superannuation governance standards to be raised to be equitable with that of all other APRA regulated entities and ASX listed companies.

Six years ago BT implemented majority of independent directors and an independent chairperson on its Superannuation Trustee Boards and it is now time for this to be an industry standard.

Additionally, as we raise education, ethical and professional standards set for financial advisers, equivalent high standards should also be an absolute minimum for trustees seeking to manage the retirement savings of millions of Australians.

Advised members have a spectrum of engagement needs but are seeking the specific and tailored support of an individual adviser to assist them to allocate their superannuation monies. This relationship is built on confidence, trust and the enhanced regulatory obligations of the best interest's duties.

We need legislation to raise standards for financial advisers as soon as possible. **This is crucial to building trust within the industry. And ensuring participants have contemporary skills.** BT Advice made our own commitments in 2014 to unilaterally increase adviser education and professionalisation standards and we have been advocating for the industry to adopt a similar position.

To support delivery of sound customer outcomes and build confidence in the industry, the financial advice reforms are **particularly front of mind.** We must have uniform standards mandated in legislation across the industry. We can no longer afford the misdeeds of a few to effect the reputation of the entire industry.

Self-Managed Superannuation Funds have a special place in our superannuation framework. They provide a mechanism to allow highly engaged individuals with investment expertise to manage their own superannuation. From an investment management perspective, you need to be your own expert. This can result in difficulties in critically judging investment performance.

But I maintain that the presence of a well managed SMSF segment helps drive the whole industry to better deliver member value.

I would, however, implore trustees of their own funds to ensure they avail themselves of appropriate advice to make sound decisions.

BT's APPROACH

BT has not shirked from our responsibility to build trust with our customers.

We were **the first in the industry** in 2014 to launch a register of financial planners which increases transparency about our customers' satisfaction ratings and qualifications of our financial advisers.

We **led the industry** in increasing the educational standards for planners. All our bank financial planners, at a minimum, have completed one of a number of approved Financial Planning Qualifications.

And in recognition of customer concerns regarding industry issues we have a simple promise driven by a really simple philosophy that governs how we treat our customers –‘**if we get it wrong, we will put things back on track.**’ We stand by this statement **wholeheartedly.**

BUILDING CUSTOMER ENGAGEMENT

Along with trust, it is also incumbent upon the industry to improve **customer engagement** in planning for retirement. It is essential that Australians take the time to be engaged in what for many will be their largest asset outside of the family home.

A person earning an average salary of \$75,000 with Superannuation Guarantee contributions at 12% and receiving 5% annual returns net of fees, still needs to make salary sacrifice contributions of around \$13,400 per year from the age of 40, to get a balance that would generate a replacement income of 65% of their pre-retirement income⁶.

⁶ Projections based on 20-year old male working for 37 years (i.e. retiring at age 67), using ASIC’s MoneySmart ‘retirement planner’ calculator.

If that same person waits until the age of 50 to start making additional contributions then the concessional contribution caps would stop their ability to save enough for their retirement because they would need to contribute \$17,400 per year in addition to their Superannuation Guarantee which would be above the \$25,000 cap.

The **earlier** that people engage with their superannuation the better the outcomes. The reality is Australians need to consider how they accumulate assets through their working life and have a plan as to how they convert these assets to enough income to last them, on average over 20 years. For most, the tax effective superannuation system is the best vehicle.

Success will be driven by the commitment we all make to our customers.

BT's vision is clear; helping people prepare for their best financial future. Forever. This vision is engrained in everything we do and while our customers will have different financial futures, our focus is to ensure it's the best it can be over the long term – for everyone, recognising their personal circumstances.

Westpac has more than 8 million customers in Australia, and close to 20% of those currently have a Wealth product with us.

As a Group, we have a deep understanding of these customers so are uniquely placed to have more meaningful and insightful wealth conversations at the right moments in their lives.

For us it is about delivering **engagement on their terms**.

To drive customer engagement in an era where digital innovation is transforming consumer interactions with their savings and their superannuation we have made the single largest investment in the Australian wealth industry, spending more than \$500 million in creating the most advanced customer Wealth platform in the country – BT Panorama.

For the first time customers will be able to see, access and transact seamlessly right across their life stage spectrum - everyday banking transactions, savings, credit cards, home loans, insurance, superannuation and investments - all in the one place.

Customers can pick and choose from a wide range of investment options – from the simple through to the complex – depending on their objectives, financial situation or needs.

One of the features we are most excited about is our self-managed superannuation fund offering. It provides fast reporting and e-enabled administration which gives self-managed superannuation fund trustees the option of providing direct access to both their accountant and advisor and responds to this growing segment of the market.

Overall, Panorama gives **all** customers greater **control and visibility** in managing their money – both individually or alongside an advisor - no matter what their level of experience or financial situation may be.

Having this visibility and control for what income you will need to plan for **will shift the mindset of Australians for the better.**

I do not say this lightly - we believe this is a **game changer** in Australian financial services and for how Australian's interact with their savings.

CONCLUSION

Ladies and gentlemen.

I am **privileged** to work in this industry, and I am **incredibly proud** to lead BT Financial Group – We all have a critical role to play in Australia's future.

It is now, that we have the ability to define one of the most important social policy issues this country faces as we **future-proof** our system for the long term.

The 45th Parliament must work together to enshrine the purpose of superannuation legislation and adopt sensible policy reform that is linked to the intergenerational report.

Industry must also work together to ensure that **customer confidence** remains strong, **customer engagement** is improved and that there is **uniformity** in helping all our customers achieve a comfortable retirement.

It doesn't matter if you are in an Industry Fund, Retail Fund or Public Sector, whether you operate in the MySuper, Advised or self-managed superannuation fund segments, whether you are part of FSC, ASFA or any other industry body, whether you are an employer facilitating the superannuation guarantee, policy makers setting the rules or a regulator enforcing them - Australians are relying on us all to ensure their system is there for them.

We must do this with the same **foresight** and **courage** of its founders. After all, it is with thanks to them that our starting point is a system that is already world class.

Thank you.