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Good morning Ladies and Gentlemen. It's a privilege to be speaking to you this morning.

I would like to start by acknowledging this meeting is being held on Aboriginal land, the traditional home of the Yugoobeh (Yoo gum bear) people – and I pay my respects to elders past and present and to those elders amongst us today.

I want to broadly address three issues right at the centre of the Financial Services Council and very much on my agenda in my first year as CEO of the organisation.

These are:

Superannuation – Retirement Policy – Leadership.

I will start with a simple question - why do we have superannuation?

Despite having the fourth largest pool of super funds in the world, there is still uncertainty in the broad Australian community on the purpose of superannuation.

With average balances across 11.5 million working Australians still low – at $70,000 for women and $110,000 for men, and compulsory contribution rates at 9.5 per cent, there is a clamour of commentators and policy specialists asking whether the system will deliver on its promises.

It's a question the industry must be able to answer clearly.

As a baby-boomer I have examined it at several points in my life.

There were times, many years ago, when I resented super – a portion of my salary was put away out of reach, by law, at a time when I had other, more pressing priorities.

As a working parent - when I was stretching my salary across a Sydney mortgage and the bottomless pit of child care costs – I really missed that percentage of my wage that was carved off to go into super.

Today those massive childcare expenses are long gone – although I still remember writing out the weekly childcare cheques which represented almost all of my salary – but now I view superannuation very differently.

If my genetic lottery works and I am lucky enough to live to ages my grandparents did, well into their 80s and 90s, I don't have enough super. The maths doesn't add up.

Like many women with broken patterns of work and uneven remuneration across a long career I need to catch up – to reduce my own retirement savings gap.

With the benefit of hindsight, I see now that I should have focused more on super, put more in than the bare minimum, and thought more about the investments I was making.

There's no point complaining – this is my responsibility.

But people like me could certainly do with some flexibility and innovative policy in the system – I will come back to this subject later.

As part of the lifelong journey that is parenting − I now use my own chequered experience with super to educate my children so they will be better prepared for their financial futures.

They are young adults − and they are very aware that a significant chunk of their salary from their various jobs goes into super.

Unlike me, they are <u>superannuation natives</u>.

They get it. They certainly don't resent it, as I did. Their understanding reflects research we've done at the FSC which shows that younger people, more than their older peers, understand and support the purpose of super to provide a privately funded retirement.

While the Millennials don't actually give a moment's thought to "old age" or "retirement' – they can conceptualise that a chunk of savings is going to come into their lives down the track and for a good purpose.

Let's reflect on that word "PURPOSE."

The FSC's definition of the purpose or objective of superannuation is to (1) provide adequate retirement incomes for Australians to improve quality of life in retirement and (2) sustain public finances through reduced outlays as the population ages.

In other words – to ensure that the majority of Australians can achieve an adequate retirement and reduce the call on the public purse.

We firmly advocate that the purpose of super – thus defined – needs to be enshrined in legislation based on bipartisan support, in order to remove it from the annual Budget, and political cycle.

David Murray's Financial System Inquiry was emphatic, its first recommendation for super states: "<u>Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term."</u>

I want to share with you this happy snap of two of our most impressive politicians – from opposite sides of the political fence – Assistant Treasurer Josh Frydenberg and the Shadow Treasurer Chris Bowen - two politicians who have granular focus on financial services, including superannuation.

The occasion was the Parliamentary cocktails, part of the FSC's annual Canberra retreat.

That night, the Assistant Treasurer and the Shadow Treasurer addressed the audience and spoke about the importance of a bipartisan approach to superannuation.

I have since written to them to see if they would meet to discuss bi-partisan support for defining the objective of the superannuation system.

We urge these brothers-in-arms – both of them persuasive and articulate leaders − to work together to define and enshrine the purpose of superannuation. To show leadership and work collaboratively towards putting in place a stable, depoliticised legislation framework for superannuation.

Both Josh and Chris will be at this conference and I'm looking forward to talking to them further on this.

And it will be a positive agenda.

Super is good…

A $2 trillion superannuation system is rightly a point of national pride.

There is no doubt that our superannuation system is now a strong component of Australia's financial system.

The importance of the financial services sector cannot be understated – it contributes more than 9% to national growth.

Superannuation contributes $2 trillion to national savings – this is more than 80% of funds under management in Australia.

It brings essential and affordable life insurance within reach of everyone.

It saves the Government, and taxpayers, more than $7 billion every year on age pension expenditure.

It generates almost $11 billion in annual tax revenue for the Federal Budget.

Our system is world leading in its vision to address the challenge of an ageing population.

Along with growing wool and wheat and mining iron ore, it's one of the things we do best.

The superannuation system also enjoys an extraordinary level of public support.

The 2014 FSC-ING Superannuation Sentiment Index found that 86 per cent of Australians are in favour of the system and 83 per cent agree that superannuation is essential to providing a comfortable retirement.

This is an incredible achievement for a system that has grown from a cottage industry 23 years ago of small, industry based funds.

However 23 years on superannuation is neither a mature system nor is it calibrated to deliver on its objectives – objectives that as I said before, should be legislated so we can all work towards a common goal.

While super funds will grow to around $9 trillion by 2040 – in 25 years time - we can't sit back and pat ourselves on the back while compound interest does its magic.

……. it could be so much better.

Achieving the system's potential requires a debate that focuses on the facts.

These are:

1. Higher contribution rates to meet the objective of providing an adequate retirement for the majority of Australians

2. Consideration of big ideas to improve the system – such as flexibility in design, and policies which enable the creation of innovative retirement products

3. Leadership which delivers long term policy with a lasting legacy.

Contribution Rates

The Government's commitment to no negative changes to the tax treatment of superannuation in this term or the next is a welcome reprieve from years of tinkering.

We gave due credit to the Government for not touching super in the May Budget.

However there is no hiding the fact that despite this commitment and our $2 trillion system, Australians are not saving enough to self-fund their retirements.

The reality is that we do not save enough inside or outside super.

Because of this, 80 per cent of us will still be accessing either the full or part pension by 2050.

That's a huge number – 80 percent after 60 years of compulsory super.

Even under the Government's proposed increase in the age pension eligibility age to 70 years, 70 per cent of retirees will still receive some form of the age pension by 2055.

These are undisputed figures and have underpinned much of the analysis of the system that we saw in the 2015 Intergenerational Report, Commission of Audit and the Financial System Inquiry.

A superannuation guarantee rate of 9.5 per cent is simply too low to help Australians self fund their retirement.

Today I am releasing new research that shows that a Super Guarantee of 9.5 per cent is not enough to deliver adequate retirement incomes for most Australians.

We should not be happy to lock in a system which amasses considerable sums but fails to meet its stated objectives.

The absence of immediate and rapid voluntary contributions, means we are extending the period in which the superannuation system will be unable to deliver adequate retirements.

What does adequacy look like? We define adequacy as the savings required at retirement to provide 62.5 per cent of pre-retirement earnings for each year until life expectancy.

There are three basic factors which enable our ability to achieve an adequate retirement income:

1. The amount we contribute to our retirement savings;

2. The growth of our savings; and

3. The age at which we retire and draw down on our savings.

With a commitment to the current tax settings, policy must now focus on the two remaining options – the contribution rate and the retirement age.

The Rice Warner research I am releasing today shows an average Australian woman must contribute 18 per cent of her income to super from the time she enters the workforce to achieve an adequate, self-funded retirement without the support of the age pension.

For a mature woman, aged 55-59, excluding the potentially devastating impact on retirement savings of a divorce or caring for elderly relatives, contribution rates must be closer to 50 per cent if she does not wish to fall back on the age pension.

This of course is simply not feasible, nor palatable. But it shows us how big the gap still is.

In September last year the Government announced that the Superannuation Guarantee would remain at today's rate of 9.5 per cent until 2021, then increase incrementally to 12 per cent by July 2025.

The Rice Warner research demonstrates for the first time the impact on retirement savings of the pause in the Superannuation Guarantee at 9.5 per cent.

The decision to pause and slow down the Superannuation Guarantee has resulted in a $136 billion blow out in the retirement savings gap.

Let me explain what this is.

The retirement savings gap is the difference between the amount the working population will accumulate by retirement and the amount required for an adequate retirement for their life expectancy – in other words what we have and what we need.

The only time the FSC-Rice Warner Saving Gap Report showed retirement savings actually closing was when 12 per cent was put into the model.

The pause in the Superannuation Guarantee at 9.5 per cent reversed the closing of the gap.

The Intergenerational Report has shown us that this cost would be a significant burden on future generations.

The proportion of working age people to retirees will have fallen substantially from 7.3 people in 1974-75 to an estimated 2.7 people in 2055.

We have to be serious about intergenerational budget sustainability.

The impact of inaction on individual Australians is real.

Rice-Warner's research shows that an average 25 year old woman entering the workforce today will have a personal savings gap of $108 000 by the time she retires around 40 years later.

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In other words, she will need to either catch up somehow, or rely on the age pension at an earlier stage.

We can't sustain a Budget where 80 per cent of us will be on the age pension in 2050 – more than 60 years after establishing this world-leading super system.

Commitment from both sides of politics to raise the contribution rate to 12 per cent is critical to enable the system reach to reach its full potential.

I call on the Government and the Opposition to commit to a 12 per cent Superannuation Guarantee by 2022 – the 30th anniversary of compulsory super.

Ideas – bold - sensible – let's put them all on the table.

The quest to improve our superannuation system requires a non-partisan intelligent discussion of ideas. It requires mature debate that doesn't descend into polarising conflict.

The partisan nature of superannuation policy has crippled reform and is acting as a handbrake on the development of a mature system working at its full potential for Australian consumers.

<u>Some ideas are bold, requiring considered debate.</u>

They include ideas like raising the preservation age – the age at which we can access our super savings, which stands currently at 60.

The FSC's policy is to raise the preservation age to within a couple of years of the pension age. To us it's an equity issue – why should the less well off Australians have to wait till 67 to access the age pension while better off Australians can take their super to retire on at 60.

Last week Brad Cooper, FSC's co-deputy chair and CEO of BT Financial Group, introduced some very interesting ideas into the national debate on super – He defined our current system as "maturing" - and "mature" in 2025, the year in which today's 10 year olds enter the workforce and the year when the 12 per cent Superannuation Guarantee begins.

He called for policy solutions like more flexibility to design a system for Australians' differing needs and differing levels of longevity.

And he urged the Government to tie super policy to the Intergenerational Report – for the IGR to be the place where long-term costs and benefits of super are published, instead of the annual Tax Expenditure Statement – the FSC advocated for this in our response to the Financial System Inquiry.

When it comes to equity for women's super, I am particularly passionate about reform – as are many of you.

It is a fact beyond dispute that women's pay is lower, their careers are often broken or sidelined because of children and elder caring responsibilities - and they rarely catch up to male levels of retirement savings.

We now know, thanks to research done by the ANZ that women begin their working lives earning an average of $295 less per week than men – which is $15,000 a year – and which blows out to a staggering $700,000 over a lifetime.

ANZ's initiatives for women, launched last week – include increasing Superannuation contributions on paid and unpaid parental leave to 24 months, up from 12 months; top-up superannuation payments of $500 per annum to female employees and free superannuation advice for customers with less than $50,000 in superannuation. They are to be commended.

Closer to home, at the FSC we pay Superannuation Guarantee to staff during the period of their parental leave. It's an important initiative and I urge other employers to consider it.

The FSC has recently convened a working group to develop a package of reforms that will form an important part of our advocacy agenda in the coming years – and this includes identifying the superannuation needs of the Indigenous community and women.

<u>Some ideas are in train.</u>

These include raising the governance standards of all directors, or trustees of **all** super funds in Australia by requiring independent trustees around the board table.

Increasing diversity on boards and introducing independent and skilled experts from all walks of life – the best and brightest - is non contentious across the world.

Pension funds and retirement schemes in OECD countries such as the US, the UK and Hong Kong have moved to independent directors or put in place specific legislation to protect consumers from conflicts of interest.

The Australian reforms are supported by a broad range of advocacy groups including:

- Consumer groups, such as Choice and National Seniors;
- Employer groups, such as Australian Chamber of Commerce and Industry and the Business Council of Australia, who represent some employers who sit on industry fund boards;
- The small business sector;
- The Governance Institute of Australia and the Australian Institute of Company Directors;
- The Government's Financial System Inquiry, the previous Labor Government's Cooper Review,
- The Association of Superannuation Funds of Australia and some industry funds, such as the $7.7 billion LG Super;
- The Australian Prudential Regulatory Authority

The rising tide of governance standards will lift all boats across every single superannuation fund – whether the fund sits in the retail, industry, corporate or public sector.

The move will help ensure that the interests of superannuation consumers – 11.5 million working Australians - come first.

Leadership

I want to finish this speech with a reflection on leadership.

We may not all agree with the direction or the ideas, but we all recognise leadership when we see it.

We saw it in the Hawke / Keating and Howard governments where business and community stakeholders worked in concert to achieve difficult changes.

Changes then – like introducing compulsory superannuation in 1992, or a goods and services tax in 2000, seemed hard at the time, but they were absolutely necessary to maintain Australia's strength and competiveness.

A couple of examples in recent times include Mike Baird and Jay Weatherill who stood up against the tide of their fellow state premiers in calling for tax reform; business leaders like Andrew Pridham and James Packer who stood up in support of Adam Goodes .

Labor's Dr Craig Emerson and the Menzies Centre's Nick Cater have shown bipartisan leadership in organising the coming National Reform Summit which has the support of some of the most testy rivals in the land – the ACTU and the BCA - The Australian and The Australian Financial Review.

The laying down of arms in search of great ideas at this summit will surely deliver leadership moments.

What makes leadership hard?

The sheer complexity of almost every issue in the public domain.

The reflexive retreat to politics and partisanship.

Vested interests stone-walling reform.

Shrill and intemperate insults from the Twitterati.

Because our community has become so polarised – either meekly timid or over-the-top bombastic – in my view, leadership on national issues can't be expected to be left to those inside the Beltway.

In a wide-ranging speech a fortnight ago Treasury Secretary John Fraser – who symbolically and importantly has taken Treasury beyond the Beltway with the opening of a Sydney office - said reform could only happen if there was political consensus and importantly, community consensus.

In making the case for reform, he said, we all need to talk to a broader range of people to build support for change.

Business has to be at the centre of national debate.

Fraser said that there is a clear role for industry – big, medium and small – to speak up for reforms of national importance even if they don't align directly with their immediate interests.

All of us here are leaders in financial services - the industry that contributes as much to the national economy as mining - and whose products and services touch the lives of every Australian.

Financial services is one of the industries that will drive Australia in the future, as an employer, an exporter and a contributor to economic growth.

Finding solutions, developing policy to benefit the national good, taking the lead on issues of reform to deliver better outcomes for as many Australians as possible, is also our responsibility.

Superannuation is Australia's signature policy.

With public support of superannuation at extremely high levels – We have a golden moment now to act.

Our prize will be by the middle of this Century the super system will deliver self-funded retirement for the majority of Australians.

Let's leave an enduring legacy for our children – a retirement policy which doesn't burden their generation.

Thank you.