AIST submission

2013-2014 Commonwealth Budget

Submission to the Treasurer

January 2013

Australian Institute of Superannuation Trustees

Background

AIST has prepared this submission in response to the Treasurer's request for public submissions regarding structure and content of the 2013-2014 Commonwealth Budget.

This submission is intended to provide a current snapshot of our major policy objectives that require budgetary consideration. AIST recognises the economic challenges currently facing the Government and the long-term implications of an ageing society. We intend to continue our extensive research, policy and advocacy programs to ensure working Australians have access to a sound and equitable retirement income system.

We look forward to working further with the Treasurer, the Assistant Treasurer and the Minister for Superannuation and Financial Services.

AIST

The Australian Institute of Superannuation Trustees (AIST) is the peak representative body of Australia's $500 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of almost two-thirds of the Australian workforce.

AIST plays a key role in policy development and advocates on behalf of its members to the Government and relevant stakeholders. We also offer a range of services including professional development, research, compliance, events (both national and international)and other consulting services as well as member support.

Contact

Fiona Reynolds, CEO (03) 8677 3800

Tom Garcia, Policy and Regulatory Manager (03) 8677 3804

1 Executive summary

As the peak industry body in the not-for-profit superannuation sector, AIST is focused on outcomes that improve financial retirement adequacy and security for all Australians.

AIST supported the following legislative measures introduced by the Government and passed by the Parliament in 2012:

- Phased increase in the Superannuation Guarantee from 9 per cent to12 per cent between 2013 and 2019[1];
- Low income rebate so that workers earning less than $37,000 pay no contributions tax from 2012-13;
- SuperStream – the bundle of measures designed to improve the efficiency of the back office of super;
- MySuper – the low-cost default, no-commission super funds designed for disengaged fund members;
- APRA Prudential Standards making powers;
- Increase in concessional caps allowing workers over 50 years old with less than $500,000 in super to make $50,000 p.a. super contributions (from 1 July 2012);
- CGT relief measures for merging superannuation funds;
- Default superannuation in awards legislation;
- Unclaimed and Lost super measures stemming from MYEFO;
- Abolition of the SG age limit; and
- Introduction of the Refund of Excess Contributions.

AIST recommendations

While the Government's superannuation reform agenda is detailed and far-reaching, there are a range of other policies that are in the public interest, and that AIST advocates in this submission. These proposals are affordable and provide far-reaching economic benefits.

- Legislate to provide all workers with the ability to make pre-tax-salary sacrifice contributions to their super fund;
- Phased introduction of mandatory Superannuation Guarantee (SG) contributions by the self-employed;
- Abolition of the $450 monthly earnings threshold for payments of SG contributions;
- Introduction of a superannuation component to parental leave payments, and/or a superannuation component to the 'baby bonus';
- To encourage workplace participation, a one-off $2,000 super payment to older workers returning to work and women who have had a family break;
- Maintain the Government co-contribution and repeal the restriction on providing government co-contributions for persons aged over 71 years;

[1] Several submissions have been made on this topic. AIST has published two items of research on the topic, including O'Connor, D, 2010. *The benefits of an SG rate of 12 per cent.* AIST briefing paper, [Online]. Available at: http://tinyurl.com/8y5xayn [Accessed 17 January 2013] and Australian Centre for Financial Studies, (ACFS), 2011. *12 Percent: What's it Worth?*. AIST Submission, [Online]. Available at: http://tinyurl.com/89y7fnl [Accessed 17 January 2013].

- No further reductions to the concessional cap limits and retain proposed July 1, 2014 increase in the concessional contributions cap to $50,000 for those aged 50 years and over with a super balance below $500,000;
- Introduce the 'bring forward rule' for concessional contributions;
- Further develop the MySuper regime to include a default pension solution and ensure a simple transition from accumulation to pension phase;
- Provide incentives for individuals to use their retirement benefits to purchase income streams rather than lump sums;
- Cap the tax free amount that can be withdrawn as a lump sum;
- Remove the age limit for concessional contributions and enable deductibility for workers and employers; and
- Allow capped tax deductibility for financial advice costs.

2 Commentary and recommendations

2.1 Improving adequacy

AIST strongly supports Australia's three pillar retirement income system, which is based on shared responsibility between individuals, employers and the Government. To ensure that all Australians have enough saved for an adequate retirement, we believe the system requires refinement and reform to ensure ongoing growth in retirement savings. Our focus in this submission is on low- to middle-income households, as well as the special needs of women, to ensure that the benefits from reform are concentrated on those of greatest need.

With the growing ageing population, AIST supports comments from the World Bank[2] that there is a Fourth Pillar to the success of superannuation systems, namely aged care, health care, and active community participation.

Issues associated with retirement are not purely financial. Issues other than the financial aspects of the superannuation system all contribute to individuals achieving a dignified and enriched retirement. They also facilitate a more productive ageing population.

We recognise that the Government must take current financial conditions into account when implementing reforms, however we also believe that bold strategic vision is vital to ensure that Australia is well-placed to deal with the challenge of a rapidly-ageing population and to deliver a dignified retirement to all Australians.

2.2 Salary sacrifice

Salary sacrifice arrangements are not available to Australian workers on an equitable basis. The ability to salary sacrifice is provided either through agreement among industrial parties or by direct agreement between an employee and their employer. In many cases, information about this arrangement is only available to employees when they proactively seek the information from the employer. A significant number of Australian workers do not have access to salary sacrifice arrangements.

Salary sacrificing into superannuation is a sensible means for employees to supplement their provision for retirement. Yet despite the tax advantages, relatively few Australians take advantage of these arrangements. AIST recommends that the Government legislate to provide all workers with the ability to make pre-tax salary sacrifice contributions to their superannuation fund. Greater access to salary sacrifice should increase the effectiveness of superannuation as a long-term investment vehicle.

Additionally, the Government should legislate that where employees partake in a salary sacrifice arrangement, their employer cannot base their SG obligations on the reduced 'take-home' salary amount.

2.3 Self-employed

An adequacy gap exists due to the exemption from compulsory contributions to superannuation for the estimated 1.3 million self-employed Australians. AIST believes there is a risk of 'under-saving' among the self-employed who rely on reinvestment in their own business.

2 Robert Holzmann, Global Pension Systems and their Reforms: World Wide Drivers, Trends and Challenges, Discussion Paper for the World Bank, May 2012

We recommend the proposed lift in compulsory superannuation contributions to 12 per cent should be coupled with a phased introduction of compulsory contributions for self-employed individuals.

2.4 Women and super

AIST has long recognised that the cumulative impact of gender pay inequity, less time in the paid workforce and higher life expectancy rates result in women having a reduced standard of living in retirement relative to men.

Nearly two-thirds of retired women rely solely on the Age Pension and an OECD report on member countries points to Australian women as being among the worst off in retirement. Currently, the average Australian woman retires with almost half the superannuation of her male counterpart. The average Australian woman at age 65 retires with $112,600, compared to $198,000 for men[3]. Further, the majority of women retire with significantly less than this 'average' figure and about one-third of women currently retire with no super at all.

It is unfair and inequitable that women who take time out of the workforce to raise children have lower retirement incomes. Moreover, the prospect of diminished capacity to accumulate retirement savings could act as disincentive for couples having children.

AIST believes a range of reforms are urgently required to bridge the superannuation gender gap and address the aspects of our current system that adversely and disproportionately affect women.

2.4.1 Removal of $450 monthly income threshold

The high concentration of females working part-time is also a contributing factor to their relatively low superannuation balances. Women comprise over 67 per cent of the part-time workforce and have almost the same number of full time and part-time workers[4]. (Over twice as many full time workers are men as compared to part time). AIST has long argued that abolishing the exemption on compulsory superannuation contributions for those earning less than $450 per month would benefit many women – as well as males – on low incomes, working on casual or part-time bases. In female-dominated industries where working for several employers is common (such as retail, hospitality and nursing), many employees are excluded from the SG system because the $450 threshold applies only to a single employer, and not on a combined income level. Australia ranks 5th in the OECD for incidence of women in part time work at 38.5%.[5]

While Access Economics modelling[6] shows that the aggregate impact of removing the $450 monthly threshold would be small, industry experience suggests it is likely to be quite concentrated, resulting in significant improvements for those individual workers who are most disadvantaged by the current exemption. Access Economics has estimated that the cost to Government of removing the exemption would be minimal (0.003 per cent of GDP in 2041).

---

[3] ABS, 2010, cited in Clare, R, 2011. *Developments in the level and distribution of retirement savings*. ASFA briefing paper, September2011, Association of Superannuation Funds of Australia, Sydney.

[4] ABS, *Employee Earnings and Hours*, Australia, May 2010 (6306.0)- [Accessed 27 January 2012]

5 OECD, http://www.oecd.org/statistics/#d.en.199456, Chart LMF1.6.A: Incidence of part-time employment, 2011, Sourced 04/01/13

[6] Access Economics, cited in Australian Institute of Superannuation Trustees, (AIST), 2011. *2011-2012 Commonwealth Budget Submission to the Treasurer*. AIST Submission, [Online]. Available at: http://tinyurl.com/3rhwcmz [Accessed 24 January 2012].

Importantly, the improvements in back office administration and payments systems scheduled for introduction with the SuperStream initiatives will reduce the current constraints felt by employers when dealing with casual employees regarding SG payments.

2.4.2 Super component to paid parental leave

AIST has long argued that a Government-funded parental leave scheme should incorporate a superannuation component, linked to the payment of superannuation guarantee contributions required on average weekly earnings. The Productivity Commission did recommend a scheme which included a superannuation component, albeit at the lower rate of minimum wage, however the Government did not implement the recommended scheme.

The implementation of a paid parental leave scheme with a superannuation component, would allow parents to continue building their superannuation whilst on parental leave. In the absence of a paid parental scheme with a superannuation component, we recommend a maternity-linked Government contribution, similar to the co-contribution, as a way of increasing equality within the system and enabling women to further grow their superannuation while on maternity leave. Specifically, as proposed in our submission to the Henry Review, we recommend the introduction of a 'baby bonus' of up to $1,500 to be paid into new mothers' superannuation accounts. This targeted initiative would ensure the Australian retirement system is better designed to address gender inequity and the ageing population issue.

2.4.3 Return-to-work super bonus

Another key factor affecting the retirement outcomes for Australian women is the relatively low workforce participation rate compared to men, particularly between the ages of 20 - 45[7]. This is linked to mothers taking time off work to raise children. Amongst OECD countries, Australia ranks 23rd in workforce participation rates for females aged between 25 and 44.

Given that a person must earn an income to qualify for superannuation contributions, any policy initiative that lifts female workforce participation will also lift the retirement savings of Australian women.

As such, we believe the Government should consider a one-off $2,000 'return-to-work' super bonus for qualifying parents who have spent time out of the paid workforce to raise children. Such an initiative would have the benefit of topping up the superannuation balances of older workers, whilst also providing a strong incentive for women to re-enter the paid workforce – sooner rather than later. A 'return-to-work' super bonus could also help women engage with their superannuation at a critical point in their working lives where many would benefit from making voluntary contributions. This policy could include thresholds for age and time spent out of the workforce.

2.5 Co-contribution scheme

In recent years, AIST has supported the continuation of the Government Co-contribution scheme to remain on a dollar-for-dollar basis with a phase-out range of $35,000 to $75,000, in order to increase the number of eligible middle-income earners. AIST recommended indexation of the phase-out range to ensure that low- and middle-income earners do not become ineligible through bracket creep.

[7] ABS, Labour Force, Australia (cat. no. 6202.0); *Labour Force Historical Timeseries*, Australia (cat. no. 6204.0.55.001) sourced 11/1/2012

The Government announced in the 2011-12 Mid Year Economic and Fiscal Outlook that they will better target superannuation concessions for low income earners by reducing the superannuation co-contribution from 1 July 2012, when the new low income superannuation contribution commences. This measure is estimated to save $1.023 billion over three years to 2014-15 and the savings will be redirected to support other Government priorities.

AIST does recommend however that the Government repeals the restriction on providing government co-contributions for persons aged 71 years or over.

AIST strongly supports the Low Income Earners Government Superannuation Contribution and understands the consequential changes to the superannuation co-contribution scheme under the current fiscal constraints. We continue to support the maintenance of the Government Co-Contribution and would support a return to formal co-contribution levels when fiscal capacity is available.

2.6 Concessional cap levels

AIST supports attempts to address inequities in the superannuation system, particularly in relation to overly-generous tax concessions for high-income earners. We have supported the reduction in the concessional contribution cap from $100,000 to $50,000 for those over 50, and from $50,000 to $25,000 for those under 50. AIST would not support any further reduction in these contribution levels.

We believe the majority of superannuation tax incentives should be targeted at middle- to low-income earners, catering for those who have not had compulsory superannuation contributions for long and should be based on accrued benefits as opposed to age.

AIST is pleased that the Government supported our recommendation[8] for a permanent increase in the concessional contributions cap to $50,000 for those at least 50 years old with a super balance below $500,000. This would extend tax benefits to those in later working life and accommodate ‘catch-up’ contributions, especially for women who already have low balances resulting from broken periods of workforce participation due to family commitments.

Reverting those over 50 years of age to the lower concessional cap from 30 June 2012 would have created additional difficulties for those saving for their retirement, particularly given that they have only had the benefit of 9% compulsory superannuation since 2002.

Many within this group are already making additional contributions through salary sacrifice arrangements and, if they are paying over the concessional cap, would have been hit with an additional tax. Therefore, the system may have punished older workers who are attempting to ‘do the right thing’ to accumulate adequate retirement savings.

With regard to the Consultation paper on *Concessional Superannuation Contributions Caps for Individuals aged 50 and over*[9], AIST supported Option 3.2 from the paper which ‘*extends eligibility to those who have commenced*

---

[8] Australian Institute of Superannuation Trustees, (AIST), 2011a. *Response to Treasury: Concessional Superannuation Contribution Caps for Individuals Aged 50 and over*. AIST Submission, [Online]. Available at: http://tinyurl.com/7cyo6dl

[9] Treasury, The, 2011. *Concessional superannuation contributions caps for individuals aged 50 and over.* Consultation Paper, [Online]. Available at: http://tinyurl.com/6rg2khs [Accessed 24 January 2012].

withdrawals, but do not add withdrawals to the account balance', as it will allow for a person's entire superannuation balance to be counted towards the total (accumulation and pension), whilst not disadvantaging those employing Transition to Retirement (TtR) strategies.

The non-inclusion of withdrawal amounts allows for greater simplicity and accuracy in the calculation, as well as lower overall costs as funds will not have to make significant changes to their administration and reporting systems.

AIST again puts forward the proposition of introducing a 'bring forward' rule on concessional contributions. AIST continues to support such a measure as the most elegant solution to this problem. This equates to people under the age of 65 being able to bring forward two (2) years' worth of entitlements of concessional contributions allowing them to contribute a greater amount in a given financial year (i.e. $150,000 for a person aged between 50 and 65). The benefit of applying this rule is that it will dramatically reduce the number of Australians breaching the caps and being charged excess contributions tax.

This rule would provide greater flexibility around the concessional contribution limits and mean that those who breach their caps (inadvertently or otherwise) would avoid being penalised, assuming they limit their contributions to the maximum amount over the next two (2) years and may exclude them from any indexed increases in the cap during this time. This means that once a person has triggered the bring-forward in a year, any indexation of the concessional contributions cap for the subsequent two years does not apply. This rule would effectively give qualifying people more time (an additional two years) to adjust their contributions before any penalties for breaching concessional caps would apply.

2.7 Post retirement

With 2013 signalling the commencement of the introduction of MySuper, the industry's development focus should concentrate more on post-retirement solutions and innovation. Numerous white papers and research reports have been released detailing the issues Australia faces with regard to increasing longevity, adequacy and financial sustainability of the system.

There are a number of major policy questions that will need to be addressed in the near future; namely

- Further developing the MySuper regime to include a default pension solution and ensure a simple transition from accumulation to pension phase;
- Provide incentives for individuals to use their retirement benefits to purchase income streams rather than lump sums;
- Capping the tax free amount that can be withdrawn as a lump sum;
- Review the *Superannuation Industry (Supervision) Regulations 1994* rules relating to income streams that restrict product innovation;
- With respect to deferral periods of deferred lifetime annuities, review the rules around minimum surrender values, minimum drawdown rules, social security and aged care tests to ensure that the products can be developed and exist on an equal playing field with existing products;
- Review the Centrelink Age Pension means test to improve targeting;
- Consider the abolition of stamp duties for those individuals/couples downsizing their homes to assist in greater turnover of properties and improved mobility.

The interaction of retirement benefits with the Age Pension, health care and aged care are complex to administer and difficult to understand. AIST believes that this area is of the greatest importance for our ageing population; improving the system to be simpler to navigate for retirees and their families as well as being more equitable and fiscally sustainable should be a policy priority and goal.

2.8 Mature age participation

AIST believes that barriers that restrict mature age participation in the workforce should be removed to encourage higher workforce participation and retention. This would have the dual benefit of improving retirement incomes and increasing productivity for the Australian economy.

AIST recommends that the age limit for superannuation contributions should be removed and enabling these workers to claim deductions for these concessional contributions. Also a work test should be extended for those aged 75 years and over. However, we believe that the current work test, namely 'a minimum of 40 hours over a consecutive 30-day period', requires review as it does not reflect modern and future employment practices and may, in fact, act as a disincentive for people seeking part-time or casual work. Any new work test developed should apply to contributions for those aged 65 and over.

AIST supports the retention of the work test, because it is designed as an incentive for Australians to participate in the workforce and it also maintains a level of integrity for the superannuation system. However, we are of the opinion that the current work test is out-dated and has not kept pace with modern employment practices.

The monthly calculation of the work test could be altered to better accommodate workers with cyclical working patterns or those who work consistently throughout the year, but for fewer hours than required. AIST suggests that a new definition of the work test be open for consultation, with potential options to altering the requirement of gainful employment being:

- A certain number of hours per annum (e.g. 50 hours per annum);or
- Presentation of a group certificate or similar to provide evidence of employment.

AIST also recommends that employers be able to claim deductions for voluntary concessional contributions made for employees aged 75 years and over.

2.9 Financial Advice

The Government has made significant advances in improving the quality and availability of financial advice to Australians in 2012 though the FOFA reforms and inclusion of intra-fund advice in MySuper offerings. It is certainly a desired policy outcome that more Australians seek financial advice and it is our opinion that availing taxpayers with the ability to deduct the cost of financial advice (up to a set annual limit) would further promote the provision of such advice.